

**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER  
PORTAGE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010***

**TOM MOREHOUSE, TREASURER**





# Dave Yost • Auditor of State

Governing Board  
Portage County Educational Service Center  
326 E. Main Street  
Ravenna, OH 44266

We have reviewed the *Independent Auditor's Report* of the Portage County Educational Service Center, Portage County, prepared by Julian & Grube, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Portage County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

January 26, 2011

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**PORTAGE COUNTY EDUCATIONAL SERVICE CENTER**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditor's Report

Portage County Educational Service Center  
326 E. Main Street  
Ravenna, OH 44266

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Portage County Educational Service Center, Portage County, Ohio as of and for the fiscal year ended June 30, 2010, which collectively comprise Portage County Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Portage County Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. These standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Portage County Educational Service Center, as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010 on our consideration of Portage County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 3 - 9 is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report  
Portage County Educational Service Center  
Page 2

For the budgetary comparison information and notes on pages 36 - 39, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 10, 2010

## Portage County Educational Service Center

### *Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010*

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The discussion and analysis of the Portage County Educational Service Center's (Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Educational Service Center's performance as a whole; readers should also review notes to the basic financial statements and the financial statements to enhance their understanding of Educational Service Center's financial performance.

#### ***Financial Highlights***

Key financial highlights for June 30, 2010 are as follows:

- General Revenues accounted for \$1.3 million in revenue or 15% of all revenues. Program specific revenues in the form of charges for services and sales and grants, contributions and interest accounted for \$7.4 million, or 85% of total revenues of \$8.7 million.
- Total program expenses were \$8.8 million.
- In total, net assets decreased \$119,340 from fiscal year 2009.

#### ***Reporting Educational Service Center as a Whole***

##### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the *financial position* of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center activities are listed as Governmental:

- Governmental Activities - All of the Educational Service Center's programs and services are reported here, including instruction, support services, operation and maintenance of plant.

The government-wide financial statements begin on page 10.



**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*

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***Reporting the Educational Service Center's Most Significant Funds***

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Educational Service Center uses fund accounting to ensure compliance with finance-related legal requirements. The Educational Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center has two major governmental funds, the general fund and the other grants special revenue fund.

**Governmental Funds** - Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other grants special revenue fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Educational Service Center adopts an annual appropriated budget for its general fund and the other grants special revenue fund. A budgetary comparison statement has been provided for the general fund and the other grants special revenue fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 12.

**Fiduciary Funds** - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Educational Service Center's own programs. The accounting for the fiduciary funds is much like that used to report proprietary funds.

The fiduciary fund financial statements begin on page 16.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 17.

**Supplementary Information** – The Educational Service Center has presented budgetary comparison schedules for the general fund and the other grants special revenue fund as supplementary information on pages 36 through 39 of this report.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*

***The Educational Service Center as a Whole***

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2010 as compared to fiscal year 2009:

**Table 1**  
**Net Assets**

	Governmental Activities	
	2010	2009
<b>Assets</b>		
Current and Other Assets	\$ 1,695,157	\$ 1,820,305
Capital Assets	110,130	117,242
Total Assets	1,805,287	1,937,547
<b>Liabilities</b>		
Long-Term Liabilities	80,672	98,494
Other Liabilities	998,396	993,494
Total Liabilities	1,079,068	1,091,988
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	99,359	96,197
Restricted	39,729	64,179
Unrestricted (Deficit)	587,131	685,183
Total Net Assets	\$ 726,219	\$ 845,559

Total assets decreased by \$132,260. The decrease in current and other assets of \$125,148 was mainly due to a decrease in cash. There was a decrease in services to other school districts from the previous year and charges for services decreased from the previous year. These services include but are not limited to Severe Behavioral Handicapped (SBH), Multiple Disabled (MD), Integrated Preschool, and Alternative School classes. The Educational Service Center also provides related services such as Physical Therapy, Occupational Therapy, Speech Therapy, Adapted Physical Education, and Psychological services. The Educational Service Center also employs personnel and places them in specific school districts at their request. Capital assets decreased \$7,112 from fiscal year 2009 from depreciation exceeding acquisitions. Long-term liabilities decreased \$17,822 mostly through payments on the capital lease while other liabilities increased 4,902.

**Portage County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*

Table 2 shows the changes in net assets for fiscal year 2010 as compared to fiscal year 2009.

**Table 2**  
**Governmental Activities**

	Governmental Activities	
	2010	2009
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 7,190,263	\$ 7,398,875
Operating Grants	207,624	137,036
<i>General Revenue:</i>		
specific programs		
specific programs	1,259,818	1,297,162
Investment Earnings and Miscellaneous	996	4,976
<i>Total Revenues</i>	<u>8,658,701</u>	<u>8,838,049</u>
<b>Program Expenses</b>		
Instruction	3,606,455	4,032,738
Support Services	5,037,954	4,645,691
Food Service Operations	124,942	93,752
Extracurricular Activities	7,914	9,373
Interest and fiscal charges	776	1,250
<i>Total Expenses</i>	<u>8,778,041</u>	<u>8,782,804</u>
Increase (Decrease) in Net Assets	<u>(119,340)</u>	<u>55,245</u>
Net Assets Beginning of Year	<u>845,559</u>	<u>790,314</u>
Net Assets End of Year	<u><u>\$ 726,219</u></u>	<u><u>\$ 845,559</u></u>

Charges for services decreased \$208,612 from 2009 due to a decrease in special education services provided to member districts. Operating grants increased \$70,588 over 2009 partially due to additional ARRA grants. Grants and entitlements not restricted to specific programs decreased \$37,344 from 2009. Program expenses in governmental activities decreased less than \$5,000 from fiscal year 2009.

**Portage County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2010*

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2010 compared to fiscal year 2009. That is, it identifies the cost of these services supported by charges for services and unrestricted grants and entitlements.

**Table 3  
Governmental Activities**

	2010		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 3,606,455	\$ (211,482)	\$ 4,032,738	\$ (216,349)
Support Services:				
Pupil and Instructional Staff	3,926,387	(522,595)	3,463,791	(386,936)
Board of Governors, Administration, Fiscal and Business	1,042,218	(443,341)	1,096,018	(453,551)
Operation and Maintenance of Plant and Central	59,440	(59,228)	74,034	(73,835)
Pupil Transportation	9,909	(9,909)	11,848	(11,848)
Food Service Operations	124,942	(124,909)	93,752	(93,752)
Extracurricular Activities	7,914	(7,914)	9,373	(9,373)
Interest and Fiscal Charges	776	(776)	1,250	(1,250)
<b>Total Expenses</b>	<b>\$ 8,778,041</b>	<b>\$ (1,380,154)</b>	<b>\$ 8,782,804</b>	<b>\$ (1,246,893)</b>

Instruction and Student Support Services comprise 86% of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for less than 1% of governmental program expenses.

The Educational Service Center is primarily funded through two sources: 1) State Foundation and 2) services provided to other school districts. The State of Ohio provides the Educational Service Center money by three calculations. The State funds the Educational Service Center received of \$37.00 per ADM student of each school in Portage County has been reduced as noted in the Current Issues section of this MD&A. By law, the State provides this money for each student of a local school district and each city or exempted village if a city or county contract exists with the Educational Service Center. The Educational Service Center has a city or county contract with each city and exempted village district in Portage County. The State will also give an additional \$6.50 per student of each district. Again, this is according to individual school ADM. The last part of the State Foundation is for Supervisory Personnel. The Educational Service Center receives salary, retirement, and unit support for each certified, non-special education supervisory personnel. Each educational service center is limited to the number of funded supervisors that they can have based on ADM in the county. The amount received is based on the State Teachers Minimum Salary Schedule. It is important to note that the \$6.50/student and supervisory money funded to the Educational Service Center is deducted from each local, city, or exempted village foundation. The Educational Service Center also receives special education unit funding for Gifted units and Preschool classroom units.

The Educational Service Center is also funded through services provided to other school districts. These services include but are not limited to Severe Behavioral Handicapped, Multiple Disabled, Integrated Preschool, Itinerant,

**Portage County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2010*

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and Alternative School classes. We also provide related services such as Physical Therapy, Occupational Therapy, Speech, Adapted Physical Education, and Psychological services. These programs are tuition based and billed after the services are provided.

***Financial Analysis of the Government's Funds***

The focus of the Educational Service Center's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Educational Service Center's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Educational Service Center's net resources available for spending at the year-end.

Information about the Educational Service Center's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8.6 million and expenditures of \$8.8 million in fiscal year 2010. The net change in fund balance for fiscal year 2010 was most significant in the general fund, with a decrease of \$185,735 in fiscal year 2010.

***General Fund***

The general fund is the main operating fund of the Educational Service Center. At the end of fiscal year 2010, the balance in the general fund was \$336,386, which was a decrease of \$185,735 from fiscal year 2009 in which the fund balance in the general fund was \$522,121. This is due to an increase in pupil and instructional support services to member Districts.

***Other Grants Special Revenue Fund***

In fiscal year 2010, the other grants special revenue fund was a major fund. The other grants special revenue fund is the Educational Service Center fund that accounts for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes. At the end of fiscal year 2010, the deficit fund balance in the other grants special revenue fund was \$163,135, which is an insignificant increase in fund balance of \$58,166 over fiscal year 2009.

***Capital Assets***

At the end of fiscal year 2010, the Educational Service Center had \$110,130 invested in equipment.

Table 4 shows comparisons between fiscal years 2010 and 2009.

**Table 4**  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Furniture and Equipment	<u>\$ 110,130</u>	<u>\$ 117,242</u>

The \$7,112 decrease in fiscal year 2010 in net capital assets was mainly attributable to current depreciation exceeding additional purchases. See Note 7 for more information regarding capital assets.

## **Portage County Educational Service Center**

### *Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010*

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#### ***Debt***

At year-end, the Educational Service Center had only a capitalized lease as outstanding long-term debt-related obligations. The lease obligations outstanding at year end totaled \$10,771. The lease balance consisted of telephone equipment scheduled to mature during the fiscal year 2011. See Note 13 to the basic financial statements for detail on the Educational Service Center's long-term obligations.

#### ***Current Issues***

The Educational Service Center is State and locally funded. By statute, the State is supposed to fund the Educational Service Center at \$37 per student. However, in March of 2008, the State reduced the funding to all Educational Service Centers by over 9%, then another 1% in 2009. This reduction held true for fiscal year 2010. Instead of \$37 per pupil, the amount per student that Educational Service Center was funded by the state was \$32.46 per student. This gave the Educational Service Center a total of \$756,976 from the State for the per pupil calculation. The result in these reductions is a loss of almost \$105,820 of revenue for Portage Educational Service Center. The statute amount of \$37 per student had not changed in the previous eight years, and there is no anticipation for an increased amount in the future. It is uncertain what enrollment will be for future years. Electronic schools are becoming more popular as an alternative to traditional public education. As programs and course offerings are reduced, the Educational Service Center may lose more students through these alternative forms of education. Community Schools are also eating away at enrollment. The Portage County Educational Service Center has agreed to sponsor Community Schools in fiscal year 2011. This may bring back some lost revenue.

The State also awards Special Education Preschool and Gifted unit support. The Educational Service Center received a total of \$367,054 for these two programs in fiscal year 2010.

The Educational Service Center also receives funding directly from the school districts that they serve within Portage County. The Educational Service Center receives \$6.50 per student from each school district, which totaled \$151,572 in fiscal year 2010. There is also an amount deducted from each school district to support supervisory personnel at the Educational Service Center. This resulted in an amount received by the Educational Service Center of \$398,910.

State funding is crucial to this educational service center. A very important aspect of state revenue is not just the publicized increases to local, city and exempted villages, but how the increases are restricted and how much are unrestricted. When local valuation increases, state funding decreases more than local funding increases. Local valuation increases are limited to the effective millage and new construction. GAAP aid decreases if additional levies are passed. If funding is cut or restricted to local, city, and exempted village school districts, it limits the amount of business that these districts can request from the Educational Service Center.

#### ***Contacting Educational Service Center's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tom Morehouse, Treasurer of the Educational Service Center of Portage County, 326 East Main Street, Ravenna, Ohio 44266.

**Portage County Educational Service Center**

*Statement of Net Assets*

*June 30, 2010*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 1,055,741
Intergovernmental receivable	627,896
Prepaid items	11,520
Depreciable capital assets (net)	<u>110,130</u>
<i>Total Assets</i>	<u>1,805,287</u>
<b>Liabilities</b>	
Accounts payable	29,351
Accrued wages and benefits	764,053
Vacation benefits payable	22,418
Matured compensated absences payable	949
Intergovernmental payable	181,625
Long term liabilities:	
Due within one year	23,833
Due in more than one year	<u>56,839</u>
<i>Total Liabilities</i>	<u>1,079,068</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	99,359
Restricted for:	
Capital projects	47
Other purposes	39,682
Unrestricted	<u>587,131</u>
<i>Total Net Assets</i>	<u>\$ 726,219</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Interest and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 113,231	\$ 61,514	\$ 40,021	\$ (11,696)
Special	3,493,224	3,277,914	15,524	(199,786)
Support services:				
Pupils	1,511,622	1,231,487	64,375	(215,760)
Instructional staff	2,414,765	2,027,529	80,401	(306,835)
Board of governors	87,199	74,374	0	(12,825)
Administration	628,797	517,445	7,058	(104,294)
Fiscal	240,113	0	0	(240,113)
Business	86,109	0	0	(86,109)
Operation and maintenance of plant	59,228	0	0	(59,228)
Pupil transportation	9,909	0	0	(9,909)
Central	212	0	212	0
Food service operations	124,942	0	33	(124,909)
Extracurricular activities	7,914	0	0	(7,914)
Interest and fiscal charges	776	0	0	(776)
<i>Total Governmental Activities</i>	\$ 8,778,041	\$ 7,190,263	\$ 207,624	(1,380,154)

**General Revenues**

Grants and entitlements not restricted to specific programs	1,259,818
Investment earnings	996
Total general revenues	1,260,814
Change in net assets	(119,340)
Net assets beginning of year	845,559
Net assets end of year	\$ 726,219

See accompanying notes to the basic financial statements.



**Portage County Educational Service Center**

*Balance Sheet*

*Governmental Funds*

*June 30, 2010*

	General	Other Grants Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in pooled cash and cash equivalents	\$ 866,226	\$ 128,846	\$ 60,669	\$ 1,055,741
Receivables:				
Interfund	16,500	0	0	16,500
Intergovernmental	595,683	0	32,213	627,896
Prepaid items	11,520	0	0	11,520
<i>Total Assets</i>	<u>\$ 1,489,929</u>	<u>\$ 128,846</u>	<u>\$ 92,882</u>	<u>\$ 1,711,657</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 16,211	\$ 0	\$ 13,140	\$ 29,351
Accrued wages and benefits	506,511	243,629	13,913	764,053
Matured compensated absences payable	949	0	0	949
Interfund payable	0	0	16,500	16,500
Intergovernmental payable	128,563	48,352	4,710	181,625
Deferred revenue	501,309	0	40,120	541,429
<i>Total Liabilities</i>	1,153,543	291,981	88,383	1,533,907
<b>Fund Balances</b>				
Reserved for encumbrances	28,792	0	138	28,930
Unreserved, undesignated (deficit), reported in:				
General fund	307,594	0	0	307,594
Special revenue funds	0	(163,135)	4,314	(158,821)
Capital projects funds	0	0	47	47
<i>Total Fund Balances</i>	<u>336,386</u>	<u>(163,135)</u>	<u>4,499</u>	<u>177,750</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,489,929</u>	<u>\$ 128,846</u>	<u>\$ 92,882</u>	<u>\$ 1,711,657</u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets Governmental Activities*  
 June 30, 2010

Total Governmental Fund Balances	\$	177,750
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		110,130
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Grants	\$ 40,120	
Tuition	<u>501,309</u>	541,429
Long-term liabilities, including leases payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Compensated Absences	69,901	
Capital Lease Payable	10,771	
Vacation Benefits Payable	<u>22,418</u>	<u>(103,090)</u>
 Net Assets of Governmental Activities	 \$	 <u><u>726,219</u></u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2010*

	General	Other Grants Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Intergovernmental	\$ 1,124,027	\$ 0	\$ 300,912	\$ 1,424,939
Investment income	996	0	33	1,029
Tuition and fees	4,795,242	0	0	4,795,242
Gifts and donations	2,350	500	0	2,850
Contract services revenue	314,252	2,064,635	0	2,378,887
Miscellaneous	0	0	954	954
<i>Total Revenues</i>	6,236,867	2,065,135	301,899	8,603,901
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	72,122	0	40,548	112,670
Special	1,641,369	1,827,629	24,567	3,493,565
Support services:				
Pupils	1,437,710	5,095	70,911	1,513,716
Instructional staff	2,167,243	174,245	81,957	2,423,445
Board of governors	87,199	0	0	87,199
Administration	605,557	0	8,674	614,231
Fiscal	237,184	0	0	237,184
Business	86,031	0	0	86,031
Operation and maintenance of plant	59,210	0	0	59,210
Pupil transportation	9,909	0	0	9,909
Central	0	0	212	212
Food service operations	49	0	129,533	129,582
Extracurricular activities	7,969	0	0	7,969
Debt service:				
Principal retirement	10,274	0	0	10,274
Interest and fiscal charges	776	0	0	776
<i>Total Expenditures</i>	6,422,602	2,006,969	356,402	8,785,973
<i>Net Change in Fund Balance</i>	(185,735)	58,166	(54,503)	(182,072)
<i>Fund Balance (Deficit) at Beginning of Year</i>	522,121	(221,301)	59,002	359,822
<i>Fund Balance (Deficit) at End of Year</i>	\$ 336,386	\$ (163,135)	\$ 4,499	\$ 177,750

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Reconciliation of the Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2010*

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Net Change in Fund Balances - Total Governmental Funds	\$	(182,072)
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*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures, However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	\$ 22,338	
Current Year Depreciation	<u>(29,450)</u>	(7,112)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Contract Services	(4,535)	
Grants	40,120	
Tuition	<u>19,215</u>	54,800

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Capital Lease		10,274
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Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.

Compensated Absences	7,548	
Vacation Benefits Payable	<u>(2,778)</u>	<u>4,770</u>

Change in Net Assets of Governmental Activities	\$	<u><u>(119,340)</u></u>
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See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2010*

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	<u>Agency</u>
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 9,996,270
Intergovernmental receivable	<u>92,149</u>
<i>Total Assets</i>	<u><u>\$ 10,088,419</u></u>
<b>Liabilities</b>	
Undistributed monies	\$ 7,798,258
Claims payable	<u>2,290,161</u>
<i>Total Liabilities</i>	<u><u>\$ 10,088,419</u></u>

See accompanying notes to the basic financial statements.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 1 – Description of the Educational Service Center**

The Portage County Educational Service Center (“Educational Service Center”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Educational Service Center makes up the Portage County Local School System. The Education Service Center is an administrative entity which operates under an elected Board of Governors (five members) as defined by Section 3311.05 of the Ohio Revised Code. The Board employs 100 certified and 67 noncertified employees.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center of Portage County, this includes the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center participates in one jointly governed organization, the Stark Portage Area Computer Consortium (SPARCC), which is presented in Note 14 to the basic financial statements.

**Note 2 – Summary of Significant Accounting Policies**

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The Educational Service Center applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (“FASB”) to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

The following are the most significant of the Educational Service Center's accounting policies.

## Portage County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### **A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements** The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. The statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Educational Service Center.

**Fund Financial Statements** During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

### **B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds: governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Educational Service Center's major governmental funds:

**General Fund** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***Other Grants Special Revenue Fund*** The other grants special revenue fund accounts for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

***Proprietary Funds*** Proprietary funds are used to account for ongoing activities which are similar to those often found in the private sector. The Educational Service Center has no proprietary funds.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary fund is an agency fund. The Educational Service Center's agency fund accounts for a local insurance consortium.

### ***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total assets.

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore, include a reconciliation with brief explanations to better identify the relationship between the governmental-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

### ***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.



**Portage County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On the accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, tuition, grants, fees, contract services and gifts and donations.

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Cash and Cash Equivalents***

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During the fiscal year 2010, investments were limited to STAROhio, (the State Treasurer's Investment Pool) and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

**Portage County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2010. Repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$996, which includes \$143 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

***F. Prepaids***

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

***G. Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of two hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture and Equipment	5-20 Years

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***H. Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental activities column of the statement of net assets.

***I. Compensated Absences***

The Educational Service Center reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

***J. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***K. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes primarily include instructional staff, pupils, and administration.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***L. Fund Balance Reserves***

The Educational Service Center reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore, are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances.

***M. Interfund Activity***

Transfers between governmental activities on the government-wide statements are eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***N. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Governors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

***O. Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

***P. Budgetary Data***

Although not legally required, the Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Educational Service Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated resources. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. Although the level of budgetary control was established at the fund level of expenditures, the Educational Service Center has elected to present the budgetary statement comparisons at the fund and function level. Budgetary information for the general fund and the other grant special revenue fund has been presented as supplementary information to the basic financial statements.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

***Q. Implementation of New Accounting Policies***

For the year ended June 30, 2010, the Educational Service Center has implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets,” GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments,” and GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies.”

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Educational Service Center.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 3 – Fund Deficits**

Fund balances at June 30, 2010 included the following individual fund deficits:

	2010
	Deficit Fund Balance
<i>Major Governmental Funds:</i>	
Other Grants	\$ 163,135
 <i>Nonmajor Governmental Funds:</i>	
Alternative Schools	7,672
Management Information Systems	19
IDEA Preschool Grant	29,008

The deficits in the governmental funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

**Note 4 - Deposits and Investments**

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Governors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Educational Service Center’s deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all uninsured public monies deposited with the institution.

**Portage County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Educational Service Center's cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

**Cash on Hand** At fiscal year end 2010, the Educational Service Center had \$100 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of equity in pooled cash and cash equivalents.

**Deposits** At fiscal year-end 2010, the carrying amount of the Educational Service Center's deposits was \$7,264,900 and the bank balance was \$7,597,764. Of the bank balance:

1. \$652,047 of the bank balance was covered by depository insurance for fiscal year 2010; and
2. \$6,945,717 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

**Investments**

Investments are reported at fair value. As of June 30, 2010, the Educational Service Center had the following investments:

	2010	
Fair Value	Investment Maturities (in months) 0-6	
Chase Repurchase Agreement	\$ 647,616	\$ 647,616
STAROhio	3,139,395	3,139,395
Totals	\$ 3,787,011	\$ 3,787,011

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center.

**Credit Risk:** The Educational Service Center's investments at June 30, 2010 included sweep accounts, and STAROhio. STAROhio is rated AAA by Standard & Poor's. The sweep accounts (repurchase agreements) are not rated by Standard & Poor's or Moody's Investments Services. The federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

**Concentration of Credit Risk:** The Educational Service Center places no limit on the amount the Educational Service Center may invest in any one issuer. More than 5 percent of the Educational Service Center's investments are in STAROhio. This investment is 82.9 percent for fiscal year 2010 of the Educational Service



**Portage County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

Center's total investments for the amounts listed above. More than 5 percent of the Educational Service Center's investments are in the repurchase agreements. This investment is 17.1 percent for fiscal year 2010.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center's \$647,616 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the Educational Service Center's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Educational Service Center's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**Note 5 - Interfund Balances**

For fiscal year 2010, on the fund financial statements, the general fund reported an interfund receivable of \$16,500 and the miscellaneous state grants fund had an interfund payable of \$16,500.

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2010 all interfund loans outstanding will be repaid in fiscal year 2011.

**Note 6 – Receivables**

Receivables at June 30, 2010 consisted of intergovernmental entitlements and grants, and interfund. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	2010 <u>Amounts</u>
<i>Major Governmental Funds</i>	
General Fund	\$ 595,683
<i>Nonmajor Governmental Funds</i>	
Food Service	19,421
Miscellaneous State Grants	12,792
<i>Total nonmajor governmental funds</i>	<u>32,213</u>
<i>Agency Fund</i>	
Employee Benefits	<u>92,149</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$ 720,045</u></u>

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2010

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**Note 7 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
<b>Governmental Activities</b>				
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$ 506,011	\$ 22,338	\$ 0	\$ 528,349
Less Accumulated Depreciation	(388,769)	(29,450)	0	(418,219)
Governmental Activities Capital Assets, Net	\$ 117,242	\$ (7,112)	\$ 0	\$ 110,130

Depreciation expense was charged to governmental functions as follows for fiscal year 2010:

	2010
Instruction:	
Regular	\$ 509
Special	6,287
Support Services:	
Pupil	673
Instructional Staff	5,393
Administration	15,784
Fiscal	644
Food Service Operations	160
Total Depreciation	\$ 29,450

**Note 8 – Risk Management**

The Educational Service Center participates in the Portage County School Consortium which is a co-operative entity to facilitate effective risk management and to share the cost of providing various insurance coverage and employee benefits. There has not been a significant reduction in coverage from the prior year. There have been no settlements paid in excess of insurance in the past three years.

**Portage County School Consortium** The Portage County School Consortium was established in 1981 so that 12 educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverage as a group. The Health and Welfare Trust is organized under the provisions of Section 501(c)(9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is

## **Portage County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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retained by the consortium to facilitate the operation of the Health and Welfare Trust. The Educational Service Center pays all insurance premiums directly to the consortium. Also, the insurance agreement with Portage County School Consortium provides that the consortium will reinsure through commercial companies for claims over \$200,000 per employee. Although the Educational Service Center does not participate in the day-to-day management of the consortium, one of its administrators serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. Although the Educational Service Center recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

Effective January 1, 1997, the Educational Service Center of Portage County is the fiscal agent of the Consortium.

### **Note 9 – Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements, Board policies, and State laws. Certified and classified employees that work 260 days per year earn ten to twenty days of vacation per year depending upon length of service. Vacation days are credited to classified employees on the anniversary of their employment and must be used within the next twelve months. Teachers and administrators (those not working 260 days) do not earn vacation time. All employees of the Educational Service Center earn sick leave at the rate of one and one-fourth days per month. Upon retirement, 25 percent of the accumulation of unused sick leave days up to 120 days will be awarded to an employee. The employee will also be awarded 10 percent of the days accumulated over 120 days up to the maximum allowable per labor agreement.

The amount of accumulated vacation and sick leave of employees paid from governmental funds that meets the eligibility requirements has been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources.

### **Note 10- Defined Benefit Pension Plans**

#### ***A. School Employees Retirement System***

Plan Description – The Educational Service Center contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.74 percent and .04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and

## **Portage County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's contributions to SERS for pension obligations and death benefits for the years ended June 30, 2010, 2009 and 2008 were \$198,693, \$127,702 and \$168,288, respectively; 100 percent has been contributed for fiscal year 2010, 2009 and 2008.

### ***B. State Teachers Retirement System***

Plan Description – The Educational Service Center participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$631,150, \$640,999 and \$602,941, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$20,077 made by the Educational Service Center and \$14,340 made by the plan members.

**Portage County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2% of wages paid.

**Note 11 - Postemployment Benefits**

***A. School Employees Retirement System***

Plan Description — The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by SERS for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan included hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocated the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,152, \$58,442 and \$76,795, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was .76 percent. The Educational Service Center's contributions for the years ended June 30, 2010, 2009 and 2008 were \$11,816, \$10,536, and \$12,126, respectively.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***B. State Teachers Retirement System***

Plan Description – The Educational Service Center contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premium. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorized STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The Educational Service Center’s contributions for health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$48,550, \$49,308 and \$46,380, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**Note 12 – Contingencies**

***A. Grants***

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2010.

***B. Litigation***

The Educational Service Center is not currently a party to any legal proceedings.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 13 – Long Term Obligations**

The changes in the Educational Service Center’s long-term obligations during the year consist of the following:

	<i>2010</i>				
	Outstanding June 30, 2009	Additions	Deductions	Outstanding June 30, 2010	Due Within One Year
<b>Governmental Activities:</b>					
Capital Lease	\$ 21,045	\$ 0	\$ 10,274	\$ 10,771	\$ 10,771
Compensated Absences	77,449	6,463	14,011	69,901	13,062
Total Governmental Activities					
Long-Term Liabilities	\$ 98,494	\$ 6,463	\$ 24,285	\$ 80,672	\$ 23,833

Compensated Absences will be paid from the fund in which the employee’s wages are paid. In prior years, this has primarily been the general fund. Capital leases will be paid from the general fund.

**Note 14 – Jointly Governed Organizations**

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization comprised of 28 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports SPARCC based upon a per pupil charge dependent upon the software package utilized. However, since the Educational Service Center is a county governmental entity, they are not required to pay any fees to SPARCC. The SPARCC assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. SPARCC is governed by a board of directors chosen from the general membership of the SPARCC assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county in which participating districts are located. Financial information can be obtained by contacting the Treasurer at Stark County Education Service Center, which serves as fiscal agent, located at 2100 38<sup>th</sup> Street, NW, Canton, Ohio 44709.

**Portage County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 15 – Capitalized Leases**

Capital lease obligations relate to telephone equipment which is leased under long-term agreements. This lease meets the criteria of a capital lease as they transfer benefits and risks of ownership to the lessee. \$49,106 of furniture and equipment has been recorded as capital assets relating to capital leases with \$19,642 of accumulated depreciation as of June 30, 2010. Capital lease payments in the general fund have been reclassified and are reflected as debt service in the basic financial statements for the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis. The following schedule of future minimum lease payments required under the capital leases and the present value of minimum lease payments as of June 30, 2010 is summarized below.

Fiscal Year Ending June 30,	Capital Lease		
	Principal	Interest	Total
2011	\$ 10,771	\$ 279	\$ 11,050

**Note 16 – Operating Leases**

The Educational Service Center (the “Lessee”) has entered into an operating lease, for a five year period commencing on July 1, 2006. The lease is with David D. Y. Lan and Lily S. C. Lan (the “Lessor”) for facilities to house the offices and functions of the Educational Service Center. Current year lease payments were \$64,800. Rental cost should be recognized on the straight-line basis over the term of the lease because no economic justification can be offered for the rental increases. Should the Lessee need to terminate the lease early due to a reduction or termination of funding, it shall notify the Lessor of its decision to terminate the lease early, in writing, ninety days in advance of the new termination date.

**Note 17 – Subsequent Event**

The Portage County Educational Service Center has approved sponsorship agreements for four community schools starting in fiscal year 2011; however, the Educational Service Center will not serve as the fiscal agent for the community schools.



*Supplementary Information*

**Portage County Educational Service Center**  
*Schedule of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental	\$ 1,167,382	\$ 1,124,027	\$ 1,124,027	\$ 0
Investment income	20,000	996	996	0
Tuition and fees	6,000,000	4,835,318	4,835,318	0
Gifts and donations	0	2,350	2,350	0
Contract service revenue	303,350	311,095	311,095	0
Miscellaneous	0	0	0	0
<i>Total Revenues</i>	<u>7,490,732</u>	<u>6,273,786</u>	<u>6,273,786</u>	<u>0</u>
<b>Expenditures:</b>				
Current:				
Instruction	3,117,000	1,660,786	1,660,786	0
Support services:				
Pupils	1,616,000	1,434,815	1,434,815	0
Instructional staff	2,257,000	2,196,843	2,196,843	0
Board of governors	103,500	92,332	92,332	0
Administration	874,950	635,610	635,610	0
Fiscal	273,500	245,447	245,447	0
Business	97,000	85,885	85,885	0
Operation and maintenance of plant	77,000	71,439	71,439	0
Pupil transportation	22,000	10,029	10,029	0
Food service operations	12,000	1,310	1,310	0
Extracurricular Activities	19,000	8,131	8,131	0
Debt service:				
Principal retirement	10,274	10,274	10,274	0
Interest and fiscal charges	776	776	776	0
<i>Total Expenditures</i>	<u>8,480,000</u>	<u>6,453,677</u>	<u>6,453,677</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	(989,268)	(179,891)	(179,891)	0
<b>Other Financing Sources (Uses):</b>				
Advances in	0	4,000	4,000	0
Advances out	(20,000)	(16,500)	(16,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(20,000)</u>	<u>(12,500)</u>	<u>(12,500)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,009,268)	(192,391)	(192,391)	0
<i>Fund Balance (Deficit) at Beginning of Year</i>	966,905	966,905	966,905	0
Prior Year Encumbrances Appropriated	42,363	42,363	42,363	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 0</u>	<u>\$ 816,877</u>	<u>\$ 816,877</u>	<u>\$ 0</u>

**Portage County Educational Service Center**  
*Schedule of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 Other Grants Special Revenue Fund  
 For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Gifts and donations	\$ 0	\$ 500	\$ 500	\$ 0
Contract services revenue	2,897,178	2,076,135	2,076,135	0
<i>Total Revenues</i>	2,897,178	2,076,635	2,076,635	0
<b>Expenditures:</b>				
Current:				
Instruction	2,684,955	1,835,266	1,835,266	0
Support services:				
Pupils	42,912	29,332	29,332	0
Instructional staff	272,133	186,013	186,013	0
<i>Total Expenditures</i>	3,000,000	2,050,611	2,050,611	0
<i>Net Change in Fund Balance</i>	(102,822)	26,024	26,024	0
<i>Fund Balance (Deficit) at Beginning of Year</i>	102,822	102,822	102,822	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 0</u>	<u>\$ 128,846</u>	<u>\$ 128,846</u>	<u>\$ 0</u>

## **Portage County Educational Service Center**

*Notes to the Supplemental Information*

*For Fiscal Year Ended June 30, 2010*

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### **Note 1 - Budgetary Process**

The Educational Service Center is not required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes.

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

### **Note 2 - Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund and other grant fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis schedule on a fund type basis for the general fund.

**Portage County Educational Service Center**

*Notes to the Supplemental Information*

*For Fiscal Year Ended June 30, 2010*

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**Net Change in Fund Balance**

	<u>General</u>
GAAP Basis	\$ (185,735)
Net Adjustment for Revenue Accruals	36,919
Advance In	4,000
Advance Out	(16,500)
Net Adjustment for Expenditure Accruals	18,268
Adjustment for Encumbrances	<u>(49,343)</u>
Budget Basis	<u><u>\$ (192,391)</u></u>

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis schedule on a fund type basis for the other grant fund.

**Net Change in Fund Balance**

	<u>Other Grants Fund</u>
GAAP Basis	\$ 58,166
Net Adjustment for Revenue Accruals	11,500
Net Adjustment for Expenditure Accruals	<u>(43,642)</u>
Budget Basis	<u><u>\$ 26,024</u></u>



## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Governing Board  
Portage County Educational Service Center  
326 E. Main Street  
Ravenna, OH 44266

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Portage County Educational Service Center, Portage County, Ohio, as of and for the fiscal year ended June 30, 2010, which collectively comprise Portage County Educational Service Center's basic financial statements and have issued our report thereon dated December 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Portage County Educational Service Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of Portage County Educational Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of Portage County Educational Service Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of Portage County Educational Service Center's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Governing Board  
Portage County Educational Service Center

Compliance and Other Matters

As part of reasonably assuring whether Portage County Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management and Governing Board of the Portage County Educational Service Center and others within Portage County Educational Service Center. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 10, 2010

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# Dave Yost • Auditor of State

PORTAGE COUNTY EDUCATIONAL SERVICE CENTER

PORTAGE COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
FEBRUARY 8, 2011