

**EDUCATIONAL SERVICE CENTER
OF PORTAGE COUNTY**

* * * *

**GENERAL PURPOSE
FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2000 and 1999**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street,
1st Floor
Columbus, Ohio 43215
Telephone 614-466-4514
800-282-0370
Facsimile 614-728-7398
www.auditor.state.oh.us

The Board of Education
Educational Service Center of Portage County
Ravenna, Ohio 44266

We have reviewed the Independent Auditor's Report of the Educational Service Center of Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 1998 through June 30, 2000. 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 Educational Service Center of Portage County is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

November 28, 2000

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 and 1999

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Combined Balance Sheet - All Fund Types and Account Groups for June 30, 2000	2 - 3
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types for the Year Ended June 30, 2000	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - (Budget Basis) - All Governmental Fund Types for the Year Ended June 30, 2000.....	6 - 7
Combined Balance Sheet - All Fund Types and Account Groups for June 30, 1999	8 - 9
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types for the Year Ended June 30, 1999	10
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - (Budget Basis) - All Governmental Fund Types for the Year Ended June 30, 1999.....	12 - 13
Notes to the General Purpose Financial Statements	14 - 28
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	29

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 13, 2000

The Board of Education
Educational Service Center of Portage County
Ravenna, Ohio 44266

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the Educational Service Center of Portage County as of and for the years ended June 30, 2000 and 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center of Portage County as of June 30, 2000 and 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2000 on our consideration of the Educational Service Center of Portage County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2000

	Governmental Fund Types		Fiduciary Fund Types
	General	Special Revenue	Agency
<u>Assets and Other Debits</u>			
<u>Assets</u>			
Cash and Cash Equivalents - Unrestricted	\$ 1,060,901	\$ 121,054	\$ 4,973,560
Intergovernmental Receivable	652,892	0	993
Prepaid Items	4,655	20	3,063
Materials and Supplies Inventory	3,287	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
<u>Other Debits</u>			
Amount to be Provided From General Government Resource	0	0	0
Total Assets and Other Debits	\$ 1,721,735	\$ 121,074	\$ 4,977,616
<u>Liabilities, Fund Equity and Other Credits</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 1,616	\$ 179	\$ 0
Accrued Wages and Benefits	209,482	0	0
Compensated Absences Payable	0	0	0
Intergovernmental Payable	282,170	1,209	0
Deferred Revenue	596,037	0	0
Undistributed Monies	0	0	3,498,794
Claims Payable	0	0	1,478,822
Capital Lease Payable	0	0	0
Total Liabilities	1,089,305	1,388	4,977,616
<u>Fund Equity and Other Credits</u>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved for Encumbrances	51,644	20,306	0
Reserved for Inventory	3,287	0	0
Reserved for Prepaid Items	4,655	20	0
Unreserved:			
Undesignated	572,844	99,360	0
Total Fund Equity and Other Credits	632,430	119,686	0
Total Liabilities, Fund Equity and Other Credits	\$ 1,721,735	\$ 121,074	\$ 4,977,616

See accompanying notes to the general purpose financial statements.

Account Groups

General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
\$ 0	\$ 0	\$ 6,155,515
0	0	653,885
0	0	7,738
0	0	3,287
276,036	0	276,036
0	111,005	111,005
<u>\$ 276,036</u>	<u>\$ 111,005</u>	<u>\$ 7,207,466</u>

\$ 0	\$ 0	\$ 1,795
0	0	209,482
0	75,548	75,548
0	11,470	294,849
0	0	596,037
0	0	3,498,794
0	0	1,478,822
0	23,987	23,987
0	111,005	6,179,314
276,036	0	276,036
0	0	71,950
0	0	3,287
0	0	4,675
0	0	672,204
<u>276,036</u>	<u>0</u>	<u>1,028,152</u>
<u>\$ 276,036</u>	<u>\$ 111,005</u>	<u>\$ 7,207,466</u>

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*

All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2000

	Governmental Fund Type		Totals (Memorandum Only)
	General	Special Revenue	
Revenues			
Intergovernmental	\$ 1,737,238	\$ 278,653	\$ 2,015,891
Intergovernmental Unit Funding	936,884	0	936,884
Investment Income	65,263	0	65,263
Tuition and Fees	677,055	0	677,055
Miscellaneous	46,684	0	46,684
Total Revenues	3,463,124	278,653	3,741,777
Expenditures			
Current:			
Instruction			
Regular	119,756	100,005	219,761
Special	1,254,577	6,435	1,261,012
Other	84,384	0	84,384
Support Services:			
Pupils	228,866	56,553	285,419
Instructional Staff	1,343,099	170,344	1,513,443
Board of Education	15,712	0	15,712
Administration	444,559	3,500	448,059
Fiscal	121,676	7,500	129,176
Business	10,817	0	10,817
Operation and Maintenance of Plant	77,826	0	77,826
Pupil Transportation	6,956	68	7,024
Central	45,952	15	45,967
Operation of Non-Instructional Services	649	0	649
Extracurricular Activities	12,990	0	12,990
Total Expenditures	3,767,819	344,420	4,112,239
Excess of Revenues Over (Under) Expenditures	(304,695)	(65,767)	(370,462)
Other Financing Sources (Uses)			
Refund of Prior Year Expenditures	1,858	0	1,858
Refund of Prior Year Receipts	(30)	(993)	(1,023)
Operating Transfers In	9,829	51,024	60,853
Operating Transfers Out	(9,829)	(51,024)	(60,853)
Total Other Financing Sources (Uses)	1,828	(993)	835
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(302,867)	(66,760)	(369,627)
Fund Balance at Beginning Of Year	935,415	186,446	1,121,861
Decrease in Reserve for Inventory	(118)	0	(118)
Fund Balance at End of Year	\$ 632,430	\$ 119,686	\$ 752,116

See accompanying notes to the general purpose financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual*
All Governmental Fund Types
(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2000

GENERAL FUND			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Intergovernmental	\$ 1,746,562	\$ 1,726,363	\$ (20,199)
Intergovernmental Unit Funding	903,715	936,884	33,169
Investment Income	45,000	65,263	20,263
Tuition and Fees	475,000	632,943	157,943
Miscellaneous	20,300	46,802	26,502
Total Revenues	3,190,577	3,408,255	217,678
<u>Expenditures</u>			
Current:			
Instruction:	1,706,914	1,423,959	282,955
Support Services			
Pupils	278,574	229,530	49,044
Instructional Staff	1,674,152	1,363,166	310,986
Board of Education	39,387	19,097	20,290
Administration	542,714	456,824	85,890
Fiscal	144,706	122,027	22,679
Business	20,565	10,818	9,747
Operation and Maintenance of Plant	96,704	78,256	18,448
Pupil Transportation	12,392	7,675	4,717
Central	66,541	45,506	21,035
Operation of Non-Instructional Services	750	649	101
Extracurricular Activities	23,659	13,437	10,222
Total Expenditures	4,607,058	3,770,944	836,114
Excess of Revenues Over (Under) Expenditures	(1,416,481)	(362,689)	1,053,792
<u>Other Financing Sources (Uses)</u>			
Refund of Prior Year Expenditures	0	1,858	1,858
Refund of Prior Year Receipts	(30)	(30)	0
Other Financing Uses	(9,062)	0	9,062
Operating Transfers In	0	9,829	9,829
Operating Transfers Out	(9,829)	(9,829)	0
Advances In	9,056	9,056	0
Advances Out	(10,000)	0	10,000
Total Other Financing Sources (Uses)	(19,865)	10,884	30,749
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,436,346)	(351,805)	1,084,541
Fund Balance at Beginning of Year	1,186,353	1,186,353	0
Prior Year Encumbrances Appropriated	173,094	173,094	0
Fund Balance (Deficit) at End of Year	\$ (76,899)	\$ 1,007,642	\$ 1,084,541

See accompanying notes to the general purpose financial statements.

SPECIAL REVENUE FUND			TOTALS (MEMORANDUM ONLY)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 289,010	\$ 299,895	\$ 10,885	\$ 2,035,572	\$ 2,026,258	\$ (9,314)
0	0	0	903,715	936,884	33,169
0	0	0	45,000	65,263	20,263
0	0	0	475,000	632,943	157,943
0	0	0	20,300	46,802	26,502
289,010	299,895	10,885	3,479,587	3,708,150	228,563
220,103	126,278	93,825	1,927,017	1,550,237	376,780
116,963	59,599	57,364	395,537	289,129	106,408
261,197	187,046	74,151	1,935,349	1,550,212	385,137
0	0	0	39,387	19,097	20,290
3,675	3,500	175	546,389	460,324	86,065
7,500	7,500	0	152,206	129,527	22,679
0	0	0	20,565	10,818	9,747
0	0	0	96,704	78,256	18,448
12,568	68	12,500	24,960	7,743	17,217
18,151	15	18,136	84,692	45,521	39,171
0	0	0	750	649	101
0	0	0	23,659	13,437	10,222
640,157	384,006	256,151	5,247,215	4,154,950	1,092,265
(351,147)	(84,111)	267,036	(1,767,628)	(446,800)	1,320,828
0	0	0	0	1,858	1,858
(993)	(993)	0	(1,023)	(1,023)	0
0	0	0	(9,062)	0	9,062
0	51,024	51,024	0	60,853	60,853
(51,024)	(51,024)	0	(60,853)	(60,853)	0
0	0	0	9,056	9,056	0
(9,056)	(9,056)	0	(19,056)	(9,056)	10,000
(61,073)	(10,049)	51,024	(80,938)	835	81,773
(412,220)	(94,160)	318,060	(1,848,566)	(445,965)	1,402,601
125,839	125,839	0	1,312,192	1,312,192	0
68,896	68,896	0	241,990	241,990	0
\$ (217,485)	\$ 100,575	\$ 318,060	\$ (294,384)	\$ 1,108,217	\$ 1,402,601

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 1999

	Governmental Fund Types		Fiduciary Fund Types
	General	Special Revenue	Agency
<u>Assets and Other Debits</u>			
<u>Assets</u>			
Cash and Cash Equivalents - Unrestricted	\$ 1,359,446	\$ 194,737	\$ 3,717,233
Receivables:			
Interfund	9,056	0	0
Intergovernmental Receivable	355,113	21,242	259,304
Prepaid Items	5,655	481	160
Materials and Supplies Inventory	3,405	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
<u>Other Debits</u>			
Amount to be Provided From General Government Resources	0	0	0
Total Assets and Other Debits	\$ 1,732,675	\$ 216,460	\$ 3,976,697
<u>Liabilities, Fund Equity and Other Credits</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 1,593	\$ 631	\$ 0
Accrued Wages and Benefits	184,762	12,099	0
Compensated Absences Payable	0	0	0
Interfund Payable	0	9,056	0
Intergovernmental Payable	257,778	8,228	0
Deferred Revenue	353,127	0	0
Undistributed Monies	0	0	2,325,476
Claims Payable	0	0	1,651,221
Total Liabilities	797,260	30,014	3,976,697
<u>Fund Equity and Other Credits</u>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved for Encumbrances	171,713	68,265	0
Reserved for Inventory	3,405	0	0
Reserved for Prepaid Items	5,655	481	0
Unreserved:			
Undesignated	754,642	117,700	0
Total Fund Equity and Other Credits	935,415	186,446	0
Total Liabilities, Fund Equity and Other Credits	\$ 1,732,675	\$ 216,460	\$ 3,976,697

See accompanying notes to the general purpose financial statements.

Account Groups		
General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
\$ 0	\$ 0	\$ 5,271,416
0	0	9,056
0	0	635,659
0	0	6,296
0	0	3,405
212,738	0	212,738
0	81,725	81,725
<u>\$ 212,738</u>	<u>\$ 81,725</u>	<u>\$ 6,220,295</u>
\$ 0	\$ 0	\$ 2,224
0	0	196,861
0	75,218	75,218
0	0	9,056
0	6,507	272,513
0	0	353,127
0	0	2,325,476
0	0	1,651,221
0	81,725	4,885,696
212,738	0	212,738
0	0	239,978
0	0	3,405
0	0	6,136
0	0	872,342
<u>212,738</u>	<u>0</u>	<u>1,334,599</u>
<u>\$ 212,738</u>	<u>\$ 81,725</u>	<u>\$ 6,220,295</u>

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

*Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances*

All Governmental Fund Types

For the Year Ended June 30, 1999

	Governmental Fund Type		Totals
	General	Special Revenue	(Memorandum Only)
Revenues			
Intergovernmental	\$ 1,892,850	\$ 610,731	\$ 2,503,581
Intergovernmental Unit Funding	858,606	0	858,606
Investment Income	59,394	0	59,394
Tuition and Fees	727,899	0	727,899
Miscellaneous	102,535	0	102,535
Total Revenues	3,641,284	610,731	4,252,015
Expenditures			
Current:			
Instruction			
Regular	96,409	106,904	203,313
Special	988,318	12,140	1,000,458
Support Services:			
Pupils	225,967	15,542	241,509
Instructional Staff	1,301,477	177,029	1,478,506
Board of Education	18,511	0	18,511
Administration	376,569	0	376,569
Fiscal	131,963	0	131,963
Business	13,182	0	13,182
Operation and Maintenance of Plant	33,988	0	33,988
Pupil Transportation	3,076	4,382	7,458
Central	30,455	0	30,455
Operation of Non-Instructional Services	496	0	496
Extracurricular Activities	13,466	0	13,466
Total Expenditures	3,233,877	315,997	3,549,874
Excess of Revenues Over (Under) Expenditures	407,407	294,734	702,141
Other Financing Sources (Uses)			
Other Financing Sources	(200)	0	(200)
Other Financing Uses	0	(242,910)	(242,910)
Operating Transfers In	0	31,550	31,550
Operating Transfers Out	0	(31,550)	(31,550)
Total Other Financing Sources (Uses)	(200)	(242,910)	(243,110)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	407,207	51,824	459,031
Fund Balance at Beginning Of Year	528,459	134,622	663,081
Decrease in Reserve for Inventory	(251)	0	(251)
Fund Balance at End of Year	\$ 935,415	\$ 186,446	\$ 1,121,861

See accompanying notes to the general purpose financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual*

All Governmental Fund Types
(Non-GAAP Budgetary Basis)

For the Year Ended June 30, 1999

GENERAL FUND			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Intergovernmental	\$ 1,983,936	\$ 1,893,107	\$ (90,829)
Intergovernmental Unit Funding	754,025	858,606	104,581
Investment Income	41,000	59,394	18,394
Tuition and Fees	600,000	742,059	142,059
Miscellaneous	260,233	103,310	(156,923)
Total Revenues	3,639,194	3,656,476	17,282
<u>Expenditures</u>			
Current:			
Instruction:	1,408,764	1,197,520	211,244
Support Services			
Pupils	310,243	231,274	78,969
Instructional Staff	1,644,330	1,385,826	258,504
Board of Education	39,647	21,464	18,183
Administration	466,485	368,976	97,509
Fiscal	149,167	131,165	18,002
Business	20,053	13,168	6,885
Operation and Maintenance of Plant	44,274	33,270	11,004
Pupil Transportation	14,530	3,197	11,333
Central	119,110	38,790	80,320
Operation of Non-Instructional Services	839	496	343
Extracurricular Activities	30,157	18,417	11,740
Total Expenditures	4,247,599	3,443,563	804,036
Excess of Revenues Over (Under) Expenditures	(608,405)	212,913	821,318
<u>Other Financing Sources (Uses)</u>			
Other Financing Uses	(19,062)	(200)	18,862
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
Advances In	0	0	0
Advances Out	(9,056)	(9,056)	0
Total Other Financing Sources (Uses)	(28,118)	(9,256)	18,862
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(636,523)	203,657	840,180
Fund Balance at Beginning of Year	827,044	827,044	0
Prior Year Encumbrances Appropriated	155,652	155,652	0
Fund Balance (Deficit) at End of Year	\$ 346,173	\$ 1,186,353	\$ 840,180

See accompanying notes to the general purpose financial statements.

SPECIAL REVENUE FUND			TOTALS (MEMORANDUM ONLY)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 611,625	\$ 588,172	\$ (23,453)	\$ 2,595,561	\$ 2,481,279	\$ (114,282)
0	0	0	754,025	858,606	104,581
0	0	0	41,000	59,394	18,394
0	0	0	600,000	742,059	142,059
0	0	0	260,233	103,310	(156,923)
611,625	588,172	(23,453)	4,250,819	4,244,648	(6,171)
140,928	124,877	16,051	1,549,692	1,322,397	227,295
68,819	26,204	42,615	379,062	257,478	121,584
278,623	212,485	66,138	1,922,953	1,598,311	324,642
0	0	0	39,647	21,464	18,183
0	0	0	466,485	368,976	97,509
3,066	3,066	0	152,233	134,231	18,002
0	0	0	20,053	13,168	6,885
0	0	0	44,274	33,270	11,004
4,664	4,382	282	19,194	7,579	11,615
6,151	0	6,151	125,261	38,790	86,471
0	0	0	839	496	343
0	0	0	30,157	18,417	11,740
502,251	371,014	131,237	4,749,850	3,814,577	935,273
109,374	217,158	107,784	(499,031)	430,071	929,102
(242,910)	(242,910)	0	(261,972)	(243,110)	18,862
0	31,550	31,550	0	31,550	31,550
(31,550)	(31,550)	0	(31,550)	(31,550)	0
0	9,056	9,056	0	9,056	9,056
0	0	0	(9,056)	(9,056)	0
(274,460)	(233,854)	40,606	(302,578)	(243,110)	59,468
(165,086)	(16,696)	148,390	(801,609)	186,961	988,570
108,781	108,781	0	935,825	935,825	0
33,754	33,754	0	189,406	189,406	0
\$ (22,551)	\$ 125,839	\$ 148,390	\$ 323,622	\$ 1,312,192	\$ 988,570

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center of Portage County (the "Center") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below.

DESCRIPTION OF THE ENTITY

The Educational Service Center of Portage County 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 of Portage County and the Portage County Local School Centers make up the Portage County Local School System. The Center is an administrative entity which operates under an elected Board of Education (five members) as defined by Section 3311.05 of the Ohio Revised Code. The Board employs 49 certificated and 50 noncertificated employees.

The Center adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions and component units for which the Center is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the combined financial statements include all of the funds and account groups of the Center over which the Center exercises operating control. It was determined the Center has no component units.

BASIS OF PRESENTATION - FUND ACCOUNTING

The Center uses funds and account groups to report its financial position and results of operation. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is then divided into various fund types. The following are the fund types and account groups utilized by the Center.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities, except those accounted for in proprietary and fiduciary funds, are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position.

General Fund

The general fund is the operating fund of the Center and is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The following is the Center's fiduciary fund.

Agency Funds

These funds are purely custodial in nature and thus do not involve measurement of results of operations.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the Center.

General Long-Term Debt Account Group

This account group is established to account for all long-term obligations of the Center.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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 are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for reporting purposes by all governmental fund types. Under this method of accounting, the Center recognizes revenues in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectable within the current fiscal period or soon enough thereafter to be used to pay liabilities of the current fiscal period, which the Center considers to be sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, tuition, grants and entitlements.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred except for unmatured principal and interest on general long-term debt which is reported only when due, and the costs of accumulated unpaid vacation and sick leave which are reported as expenditures in the period in which they may be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

BUDGETARY PROCESS

Annually, on or before a date designated by the State Department of Education, the Center shall prepare a budget of operating expenses for the ensuing year for the Center and shall certify the budget to the State Board of Education.

The budget shall consist of two parts. Part (A) shall include the cost of salaries, employer retirement contributions and travel expenses of supervisory teachers. Part (B) shall include the cost of all other lawful expenditures of the Center. The State Board of Education will then review the budget and may approve, increase or decrease such budget.

Appropriations

The Center is not required to appropriate funds under Section 5705.38, Revised Code; however, expenditures must be based upon the budget. The Center may also adopt an appropriation measure.

Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by the Center throughout the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. During the year, several supplemental appropriation measures were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures in governmental funds.

Lapsing of Appropriations

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

DEPOSITS AND INVESTMENTS

The Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Center pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Investment income is recorded in the general fund, as permitted by the Ohio Revised Code. Investments are stated at cost which approximates fair value at year-end. Cash deposits are reported as carrying amount, which reasonably estimates fair value.

The Center has also invested funds in the State Treasury Asset Reserved of Ohio (STAROhio) during fiscal years 2000 and 1999. 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 STAROhio's share price which is the price the investment could be sold for on June 30, 2000 or 1999.

INVENTORY

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items are recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

FIXED ASSETS AND DEPRECIATION

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical cost records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The Center does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Assets in the general fixed assets account group are not depreciated.

ADVANCES TO OTHER FUNDS

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2000, the Center had no such advances.

COMPENSATED ABSENCES

GASB Statement No. 16 specifies that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met.

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Other compensated absences with characteristics similar to vacation leave are those which are not contingent on a specific event outside the control of the employer and employee.

Further, sick leave and other similar compensated absences are those which are contingent on a specific event that is outside the control of the employer and employee. The Center has accrued a liability for these compensated absences using the termination method when the following criteria is met.

The benefits are earned by the employees and it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' retirement ("termination payments").

The sick leave liability has been based on the Center's past experience of making termination payments for sick leave.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

For governmental funds, that portion of the liability which is non-current is reported in the general long-term debt account group. Liabilities that may use current expendable resources are recorded in the fund from which the employees are paid.

LONG-TERM DEBT

Long-term debt is recognized as a liability of a governmental fund when past due, or when resources have been accumulated in the debt service fund. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligation is reported in the general long-term debt account group.

FUND BALANCE RESERVES

Fund balance reserves represent that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, and prepaid items. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

INTERGOVERNMENTAL REVENUES

In governmental funds, entitlements and non-reimbursable grants are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The Center currently participates in various state and federal programs.

INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Budgetary Basis of Accounting

While reporting financial position, results of operations and changes in fund balance is on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Government Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance for governmental fund types.

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses

	June 30, 2000		June 30, 1999	
	General	Special Revenue	General	Special Revenue
GAAP Basis	\$ (302,867)	\$ (66,760)	\$ 407,207	\$ 51,824
Net adjustment for revenue accruals	(45,813)	21,242	17,675	(11,986)
Net adjustments for expenditure accruals	50,135	(28,165)	(48,132)	12,361
Encumbrances	<u>(53,260)</u>	<u>(20,477)</u>	<u>(173,093)</u>	<u>(68,895)</u>
Budget Basis	<u>\$ (351,805)</u>	<u>\$ (94,160)</u>	<u>\$ 203,657</u>	<u>\$ (16,696)</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

The Center's Treasurer is responsible for the safekeeping and investment of all public funds. It is also the Treasurer's responsibility to deposit and invest the Center's idle funds. The Center's practice is to limit investments to collateralized repurchase agreements and the State Treasurer's Asset Reserve of Ohio (STAR Ohio).

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

A. LEGAL REQUIREMENTS

State statutes classify monies held by the 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 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 Education 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 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 School 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 public monies deposited with the institution.

Interim monies can 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 issuance's 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 exceeds the principal value of the agreement by at least two percent and be marked to market daily with the term of the agreement not exceeding 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;

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

- (6) The State Treasurer's investments pool (STAR Ohio);
- (7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days 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 rating 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 Educational Service Center of Portage County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific 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.

Protection of the Center's cash and investments is provided by the Federal Deposit Insurance Corporation as well as by qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral generally must equal at least 110% of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Deposits and Cash

At June 30, 2000, the Center has \$100 of petty cash on hand.

At year end, the carrying amount of the Center's deposits was \$34,329 while the bank balance was \$478,237. Federal depository insurance covered \$200,000 of the bank balance. The remaining \$278,237 was uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or other trust departments or agents is not in the Center's name due to the fact that the pledging bank has an investment and securities pool used to collateralize all public deposits. This method of collateralization is expressly authorized by state statute.

Investments

The Center's investments are categorized below to give an indication of the level of risk assumed by the Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Center's name.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

	<u>1</u>	Category <u>2</u>	<u>3</u>	Carrying Value	Market Value
Overnight Repurchase Agreement	\$ 0	\$ 0	\$ 1,048,720	\$ 1,048,720	\$ 1,048,720
Total	\$ 0	\$ 0	\$ 1,048,720	1,048,720	1,048,720
STAR Ohio				3,453,658	3,453,658
Key Bank – Mutual Fund				<u>1,618,708</u>	<u>1,618,708</u>
Grand Total				<u>\$ 6,121,086</u>	<u>\$ 6,121,086</u>

The carrying amount of deposits and investments is presented on the combined balance sheet as Equity in Pooled Cash and Cash Equivalents.

STAR Ohio and Key Bank are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2000 and 1999 consisted of accounts (rent, student fees and miscellaneous charges for services), interest, and intergovernmental entitlements, grants and amounts due from other local governments for services rendered. All intergovernmental 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 grants and entitlements receivable follows:

Intergovernmental Receivables

	<u>2000</u>	<u>1999</u>
General Fund	\$ 652,892	\$ 355,113
Special Revenue	0	21,242
Agency Fund	<u>993</u>	<u>259,304</u>
Grand Total	<u>\$ 653,885</u>	<u>\$ 635,659</u>

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 5 - FIXED ASSETS

A summary of the changes in general fixed assets follows:

	<u>Balance 7/1/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/00</u>
Furniture and equipment	\$ 212,738	\$ 64,414	\$ 1,116	\$ 276,036
Total	<u>\$ 212,738</u>	<u>\$ 64,414</u>	<u>\$ 1,116</u>	<u>\$ 276,036</u>
	<u>Balance 7/1/98</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/99</u>
Furniture and equipment	\$ 179,562	\$ 36,631	\$ 3,455	\$ 212,738
Total	<u>\$ 179,562</u>	<u>\$ 36,631</u>	<u>\$ 3,455</u>	<u>\$ 212,738</u>

NOTE 6 - LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2000 and 1999 consisted of the following:

	<u>Balance 7/1/99</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/00</u>
<u>General Long-Term Debt Account Group</u>				
Compensated Absences Payable	\$ 75,218	\$ 330	\$ 0	\$ 75,548
Capital Lease Payable	0	23,987	0	23,987
Intergovernmental Payable	<u>6,507</u>	<u>11,470</u>	<u>6,507</u>	<u>11,470</u>
Total General Long-Term Obligations	<u>\$ 81,725</u>	<u>\$ 35,787</u>	<u>\$ 6,507</u>	<u>\$ 111,005</u>

	<u>Balance 7/1/98</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/99</u>
<u>General Long-Term Debt Account Group</u>				
Compensated Absences Payable	\$ 75,874	\$ 7,114	\$ 7,770	\$ 75,218
Intergovernmental Payable	<u>9,768</u>	<u>6,507</u>	<u>9,768</u>	<u>6,507</u>
Total General Long-Term Obligations	<u>\$ 85,642</u>	<u>\$ 13,621</u>	<u>\$ 17,538</u>	<u>\$ 81,725</u>

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 7 – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2000 and 1999 consist of the following individual fund receivables and payables:

	Balance 6/30/2000		Balance 6/30/1999	
	Receivable	Payable	Receivable	Payable
General	\$ 0	\$ 0	\$ 9,056	\$ 0
Special Revenue	0	0	0	\$ 9,056
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,056</u>	<u>\$ 9,056</u>

NOTE 8 - PENSION PLANS

School Employees Retirement System (SERS)

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer public employee retirement defined benefit pension plan. SERS provides retirement, annual cost-of-living adjustments, disability, survivor and health care benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and the Center are established and may be amended by the SERS Board of Trustees. The Center's contributions to SERS for the years ending June 30, 2000, 1999, and 1998 were \$90,643, \$84,090, and \$71,943, respectively, 89 percent has been contributed for fiscal year 2000 and 100 percent for the fiscal year 1999 and 1998. The amount representing the unpaid contribution for fiscal years 2000 and 1999, was \$11,470 and \$6,507, respectively, and is recorded as a liability within the respective funds and the general long-term obligation account group.

State Teachers Retirement System (STRS)

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement defined benefit pension plan operated by the State of Ohio. STRS provides retirement, annual cost-of-living adjustments, disability, survivor and health care benefits. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report can be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and the Center are established and may be amended by the STRS Board of Trustees. The Center's contributions to STRS for the years ending June 30, 2000, 1999 and 1998, were \$258,127, \$240,675 and \$231,159, respectively. No contribution for fiscal year 2000 has been made, 100 percent of the contribution for fiscal year 1999 and 1998 has been made. The amount representing the unpaid contribution for fiscal year 2000, \$258,127, is recorded as a liability within the respective funds.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 8 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

The Ohio Revised Code gives SERS the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients.

Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premiums for health care. The portion is based on years of service up to a maximum of 75% of their premium.

After the allocation for basic benefits, the remainder of the employer's contribution is allocated to providing health care benefits. At June 30, 1999, (the latest information available) the allocation rate was 6.3%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 1999 (the latest information available), the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 1999 were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, the Retirement System's net assets available for payment of health care benefits was \$188.0 million, at cost. The number of participant's currently receiving health care benefits is approximately 51,000. The portion of employer contributions that was used to fund postemployment benefits for fiscal year 2000 and 1999, was \$52,259 and \$44,347, respectively.

State Teachers Retirement System (STRS)

The State Teachers Retirement System of Ohio (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The ORC grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Board currently allocates employer contributions equal to 2% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. However, for the fiscal year ended June 30, 1999, the board allocated employer contributions equal to 8% of covered payroll to the Health Care

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

Reserve Fund. The balance in the Health Care Reserve Fund was \$2,783 million at June 30, 1999, (the latest information available). The Health Care Reserve Fund allocation for the year ended June 30, 2000, will be 8% of covered payroll. For the year ended June 30, 1999, the net health care costs paid by STRS were \$249,929,000. There were 95,796 eligible benefit recipients.

NOTE 9 - OTHER EMPLOYEE BENEFITS - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees 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 do not earn vacation time. All employees of the Center earn sick leave at the rate of one and one-fourth days per month. Upon retirement, 30% for support staff and 25% for teachers, on the accumulation of unused sick leave days will be awarded to an employee with 10 years of service or more at the Center.

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. The balance of the liability is recorded in the general long-term debt account group.

NOTE 10 - RISK MANAGEMENT

The 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.

Portage County School Consortium

The Portage County School Consortium was established in 1981 so that 13 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 retained by the consortium to facilitate the operation of the Health and Welfare Trust. The Center pays all insurance premiums directly the consortium. Also, the insurance agreement with Portage County School Consortium provides that the Consortium will reinsure through commercial companies for claims over \$100,000 per employee. Although the 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 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, 1998, the Educational Service Center of Portage County is the fiscal agent of the Consortium.

EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

NOTES TO THE GENERAL FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 11 - CONTINGENCIES

Grants

The 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 is 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 Center at June 30, 2000 and 1999.

Litigation

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

NOTE 12 – OTHER MATTERS

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 2000, the District received \$4,206,389 of school foundation support all of which is recorded in the general fund.

Since the Supreme Court Ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the Ohio Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future state funding under this program and on its financial operations.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 13, 2000

The Board of Education
Educational Service Center of Portage County
Ravenna, Ohio 44266

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the general purpose financial statements of the Educational Service Center of Portage County as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated October 13, 2000. We have conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center of Portage County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center of Portage County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management, and others within the Center and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

EDUCATIONAL SERVICES CENTER OF PORTAGE COUNTY

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
DECEMBER 7, 2000**