

Educational Service Center of Portage County

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Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Educational Service Center of Portage County
224 West Riddle Avenue
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, 2003 to June 30, 2004. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 15, 2005

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EDUCATIONAL SERVICE CENTER OF PORTAGE COUNTY

*For the Year Ended June 30, 2004
Table of Contents*

	<i>Page</i>
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	12
Reconciliation of Total Governmental Fund Balances To Net Assets Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	16
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	17
Notes to the Basic Financial Statements	18
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards	37

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Portage County (Educational Service Center), as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School District'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 *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 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 opinion.

As described in Note 3, during the year ended June 30, 2004, the Educational Service Center implemented a new financial reporting model, as required by the provision of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Governmental Accounting Standards Board Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and Governmental Accounting Standards Board Statement Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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 Educational Service Center of Portage County, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the general fund for the 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 January 27, 2005, 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. That 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.

The Management's Discussion and Analysis, on page 2 through 8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Rea & Associates, Inc.

Educational Service Center of Portage County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The discussion and analysis of the Educational Service Center of Portage County'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, 2004. 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 2004 are as follows:

- ❑ General Revenues accounted for \$3 million in revenue or 47% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3.3 million or 53% of total revenues of \$6.3 million.
- ❑ Total program expenses were \$6.5 million.
- ❑ In total, net assets decreased \$176,749 from 2003.

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 2004?" 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.

Educational Service Center of Portage County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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.

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's only major governmental fund is the general fund.

Governmental Funds - Most of 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 which is considered to be a major fund. 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. A budgetary comparison statement has been provided for the general 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 proprietary funds.

The fiduciary fund financial statements begin on page 17.

Educational Service Center of Portage County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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 18.

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 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$ 1,993,231	\$ 1,946,654
Capital Assets	173,412	229,019
Total Assets	2,166,643	2,175,673
Liabilities		
Long-Term Liabilities	126,163	64,124
Other Liabilities	576,342	470,662
Total Liabilities	702,505	534,786
Net Assets		
Invested in Capital		
Assets Net of Debt	173,412	229,019
Restricted	64,805	82,312
Unrestricted (Deficit)	1,225,921	1,329,556
Total Net Assets	\$ 1,464,138	\$ 1,640,887

Total assets decreased by \$9,030. The increase in current and other assets of \$46,577 was mainly due to an increase in cash. There was an increase in services to other school districts 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. The Educational Service Center's student numbers grew in each of these programs. More specifically, the Educational Service Center added one SBH unit, one MD unit, two Preschool units, one Occupational Therapist, and one Psychologist. Because

Educational Service Center of Portage County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

of the fact that these programs have increased, the amounts that were invoiced back also increased, thus the increase in cash.

Total liabilities increased by \$167,719. The increase is primarily due to increased instructional wages and benefits.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	Governmental Activities
	2004
<i>Revenues</i>	
<i>Program Revenues:</i>	
Charges for Services	\$ 3,115,204
Operating Grants	190,224
<i>General Revenue:</i>	
Grants and Entitlements	2,896,414
Other	101,824
	6,303,666
<i>Program Expenses</i>	
Instruction	2,536,658
Support Services	3,926,781
Operation of Non-Instructional Se	386
Extracurricular Activities	16,590
	6,480,415
<i>Total Expenses</i>	6,480,415
Increase (Decrease) in Net Assets	\$ (176,749)

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. That is, it identifies the cost of these services supported by charges for services and unrestricted grants and entitlements. Comparisons to 2003 have not been made since they are not available.

Educational Service Center of Portage County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

(Table 3)
Governmental Activities

	2004	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 2,536,658	\$ 642,744
Support Services:		
Pupil and Instructional Staff	3,131,614	(3,024,851)
Board of Education, Administration, Fiscal and Business	690,142	(680,716)
Operation and Maintenance of Plant and Central	93,018	(91,845)
Pupil Transportation	12,007	(3,343)
Operation of Non-Instructional Services	386	(386)
Extracurricular Activities	16,590	(16,590)
 Total Expenses	 \$ 6,480,415	 \$ (3,174,987)

Instruction and Student Support Services comprise 98% of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for less than 2% 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. First the State funds the Educational Service Center \$37.00 per ADM student of each school in Portage County. 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. These city or county contracts are renewable every two years, with the current contracts effective until July 1, 2006. 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, 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.

Educational Service Center of Portage County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2004, the Educational Service Center amended its general fund budget numerous times. Many of the amendments are due to changes in program attendance, client-district needs and capital improvement decisions. The general fund is often called upon to advance funds to one project or another. During the course of the fiscal year, several federal and state grants will surface or material changes in existing ones will require budgetary action.

For the general fund, the final budget basis revenue was \$6 million; this was above the original budget estimates of \$5.9 million. The main difference between the original and final estimates was due to an increase in income for programs such as special education and the Positive Behavior Support Program. The final budget basis expenditures estimate was \$6.7 million; this was above the original budget estimates of \$6.5 million. The increase was due to the growth in programs and how well the year moved along. This increase in growth is due to more children entering our programs, which in effect is due to an increase in awareness of identifying children with special needs growth in the preschool age children in the county. Programs such as the Positive Behavior Support and Alternative Learning Setting were added during the year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the Educational Service Center had nearly \$173,412 invested in equipment.

Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Furniture and Equipment	<u>\$ 173,412</u>	<u>\$ 229,019</u>
	<u>\$ 173,412</u>	<u>\$ 229,019</u>

The \$55,607 decrease in net capital assets was mainly attributable to the current depreciation expense.

Educational Service Center of Portage County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Current Issues

The Educational Service Center is primarily state funded. The Educational Service Center anticipates that the State will continue to fund at the \$37.00 per student level. That dollar amount has not changed for five years and there is no anticipation for an increased amount. It is uncertain what its 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.

State funding is crucial to this district. 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 (6 year revaluation tax year 2003, collection fiscal year 2004) state funding decreases more than local funding increases. Local increases are limited to the 4.7 mills 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.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

Another concern of Educational Service Center will be the State Legislative approval of the biennial budget, effective July 1, 2005. How the legislature plans to fund education programs during a weakened economy remains a concern.

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, 224 West Riddle Avenue, Ravenna, Ohio 44266.

Educational Service Center of Portage County

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 433,428
Receivables:	
Accounts	41,569
Intergovernmental	1,518,234
Depreciable Capital Assets (Net)	<u>173,412</u>
<i>Total Assets</i>	<u>2,166,643</u>
Liabilities	
Accrued Wages and Benefits	534,700
Intergovernmental Payable	41,642
Long Term Liabilities:	
Due Within One Year	19,316
Due Within More Than One Year	<u>106,847</u>
<i>Total Liabilities</i>	<u>702,505</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	173,412
Restricted for:	
Other Purposes	64,805
Unrestricted	<u>1,225,921</u>
<i>Total Net Assets</i>	<u><u>\$ 1,464,138</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 317,252	\$ 2,691,332	\$ 46,072	\$ 2,420,152
Special	2,133,265	423,872	15,201	(1,694,192)
Other	86,141	0	2,925	(83,216)
Support services:				
Pupils	665,561	0	1,753	(663,808)
Instructional Staff	2,466,053	0	105,010	(2,361,043)
Board of Education	34,786	0	0	(34,786)
Administration	473,867	0	9,426	(464,441)
Fiscal	155,892	0	0	(155,892)
Business	25,597	0	0	(25,597)
Operation and Maintenance of Plant	39,651	0	0	(39,651)
Pupil Transportation	12,007	0	8,664	(3,343)
Central	53,367	0	1,173	(52,194)
Operation of Non-Instructional Services	386	0	0	(386)
Extracurricular Activities	16,590	0	0	(16,590)
<i>Total Governmental Activities</i>	<u>\$ 6,480,415</u>	<u>\$ 3,115,204</u>	<u>\$ 190,224</u>	<u>\$ (3,174,987)</u>

General Revenues

Grants and Entitlements not Restricted to Specific Programs	2,896,414
Investment Earnings	2,282
Miscellaneous	99,542
Total General Revenues	2,998,238
Change in Net Assets	(176,749)
Net Assets Beginning of Year	1,640,887
Net Assets End of Year	<u>\$ 1,464,138</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County
Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 365,195	\$ 68,233	\$ 433,428
Receivables:			
Accounts	41,569	0	41,569
Intergovernmental	1,518,234	0	1,518,234
<i>Total Assets</i>	<u>\$ 1,924,998</u>	<u>\$ 68,233</u>	<u>\$ 1,993,231</u>
Liabilities and Fund Balances			
Liabilities			
Accrued Wages and Benefits	\$ 534,700	\$ 0	\$ 534,700
Intergovernmental Payable	6,237	0	6,237
Deferred Revenue	1,440,980	0	1,440,980
<i>Total Liabilities</i>	1,981,917	0	1,981,917
Fund Balances			
Fund Balance:			
Reserved for Encumbrances	20,050	9	20,059
Unreserved:			
Undesignated, Reported in:			
General Fund	(76,969)	0	(76,969)
Special Revenue Funds	0	68,177	68,177
Capital Projects Funds	0	47	47
<i>Total Fund Balances</i>	<u>(56,919)</u>	<u>68,233</u>	<u>11,314</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,924,998</u>	<u>\$ 68,233</u>	<u>\$ 1,993,231</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County
Reconciliation of Total Governmental Fund Balances to
Net Assets Governmental Activities
June 30, 2004

Total Governmental Fund Balances	\$	11,314
<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.		173,412
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Tuition		1,440,980
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Intergovernmental Payable	(35,405)	
Compensated Absences	<u>(126,163)</u>	<u>(161,568)</u>
Net Assets of Governmental Activities	<u>\$</u>	<u>1,464,138</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Intergovernmental	\$ 1,451,617	\$ 203,940	\$ 1,655,557
Investment Income	2,282	0	2,282
Tuition and Fees	3,800,436	0	3,800,436
Charges for Services	423,872	0	423,872
Gifts and Donations	3,817	0	3,817
Miscellaneous	98,935	607	99,542
<i>Total Revenues</i>	5,780,959	204,547	5,985,506
Expenditures:			
Current:			
Instruction:			
Regular	258,839	48,145	306,984
Special	2,075,888	17,520	2,093,408
Other	82,522	3,619	86,141
Support Services:			
Pupils	658,146	1,945	660,091
Instructional Staff	2,337,930	116,125	2,454,055
Board of Education	34,786	0	34,786
Administration	444,659	11,275	455,934
Fiscal	151,922	0	151,922
Business	25,367	0	25,367
Operation and Maintenance of Plant	39,415	0	39,415
Pupil Transportation	3,055	8,952	12,007
Central	51,828	1,483	53,311
Operation of Non-Instructional Services	207	179	386
Extracurricular Activities	16,590	0	16,590
<i>Total Expenditures</i>	6,181,154	209,243	6,390,397
<i>Net Change in Fund Balance</i>	(400,195)	(4,696)	(404,891)
<i>Fund Balance (Deficit) at Beginning of Year</i>	343,276	72,929	416,205
<i>Fund Balance (Deficit) at End of Year</i>	\$ (56,919)	\$ 68,233	\$ 11,314

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County
Reconciliation of Changes
in Fund Balances of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	(404,891)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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.</p>		
Capital Asset Additions	7,799	
Current Year Depreciation	<u>(63,406)</u>	(55,607)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Tuition		318,160
<p>Some expenses reported in the statement of net activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.</p>		
Compensated Absences	(12,943)	
Pension Obligation	<u>(21,468)</u>	<u>(34,411)</u>
Change in Net Assets of Governmental Activities	\$	<u>(176,749)</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 1,701,547	\$ 1,385,328	\$ 1,389,008	\$ 3,680
Investment Income	8,000	8,000	2,282	(5,718)
Tuition and Fees	3,676,000	4,106,219	3,800,435	(305,784)
Miscellaneous	545,209	565,249	502,192	(63,057)
<i>Total Revenues</i>	5,930,756	6,064,796	5,693,917	(370,879)
Expenditures:				
Current				
Instruction	2,567,434	2,593,054	2,315,913	277,141
Support Services				
Pupils	730,154	723,922	638,398	85,524
Instructional Staff	2,467,989	2,545,151	2,295,020	250,131
Board of Education	44,458	46,452	30,468	15,984
Administration	459,520	489,342	448,092	41,250
Fiscal	157,104	157,104	150,587	6,517
Business	23,110	23,110	19,997	3,113
Operation and Maintenance of Plant	44,200	45,200	39,104	6,096
Pupil Transportation	14,750	14,750	4,055	10,695
Central	46,799	51,399	51,278	121
Operation of Non-Instructional Services	400	400	207	193
Extracurricular Activities	23,889	23,964	16,690	7,274
<i>Total Expenditures</i>	6,579,807	6,713,848	6,009,809	704,039
Excess of Revenues Over (Under) Expenditures	(649,051)	(649,052)	(315,892)	333,160
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	9,000	9,000	1,295	(7,705)
Refund of Prior Year Receipts	(26,131)	(26,131)	(26,031)	100
Advances In	13,716	13,716	13,716	0
Advances Out	(19,062)	(19,062)	0	19,062
<i>Total Other Financing Sources (Uses)</i>	(22,477)	(22,477)	(11,020)	11,457
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(671,528)	(671,529)	(326,912)	344,617
<i>Fund Balance (Deficit) at Beginning of Year</i>	559,619	559,619	559,619	0

Educational Service Center of Portage County
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 4,775,294</u>
Liabilities	
Undistributed Monies	\$ 2,503,597
Claims Payable	<u>2,271,697</u>
<i>Total Liabilities</i>	<u>\$ 4,775,294</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1 – Description of the Educational Service Center

The Educational Service Center of Portage County (“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 Education (five members) as defined by Section 3311.05 of the Ohio Revised Code. The Board employs 76 certified and 80 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 18 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Educational Service Center 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. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the Educational Service Center's accounting policies are described below.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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. The internal service fund is presented in a single column on the face of the proprietary fund statements. 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 is the operating fund of Educational Service Center and is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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 funds are agency funds. The Educational Service Center's agency funds account 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.

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.

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.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include taxes, 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

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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, customer services and charges for services. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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 fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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, including proprietary 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 fiscal year 2004, investments were limited to STAROhio, (the State Treasurer's Investment Pool), money market accounts, and repurchase agreements.

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

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, 2004. 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 2004 amounted to \$2,282 which includes \$301 assigned from other Educational Service Center funds.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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. 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 fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five 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 except land 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 Fixtures	5-20 Years

G. Interfund Balances

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

H. 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.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 compensated absences, special termination benefits and contractually required pension contributions 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.

J. 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.

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.

K. 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.

Educational Service Center of Portage County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

L. 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.

M. 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 Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

N. 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.

O. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the 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 Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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 funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

Educational Service Center of Portage County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Encumbrances are part of the 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 fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide 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.

Note 3 – Change in Accounting Principle and Restatement of Fund Balances/Net Assets

Changes in Accounting Principles For fiscal year 2004, the Educational Service Center has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37 “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003 caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Restatement of Fund Balance The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the Educational Service Center. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance, June 30, 2003	<u>\$ 343,276</u>	<u>\$ 72,929</u>	\$ 416,205
GASB 34 Adjustments:			
Capital Assets			229,019
Long-Term (Deferred) Assets			1,122,820
Compensated Absences			(113,220)
Pension Obligations			(13,937)
Governmental Activities Net Assets, June 30, 2003			<u>\$ 1,640,887</u>

Note 4 – Fund Deficits

Fund balances and net assets at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>	
	<u>Fund Balance</u>	<u>Net Assets</u>
<i>Major Governmental Funds:</i>		
General Fund	\$ 56,919	
<i>Nonmajor Governmental Funds:</i>		
Alternative Schools		\$ 225
IDEA Preschool Grant		247

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 operating transfers when cash is required, not when accruals occur.

Note 5 – Net Assets Restricted for Other Purposes

Net assets restricted for other purposes consisted of the following:

	<u>June 30, 2004</u>
Nonmajor Governmental Special Revenue Funds	<u>\$ 64,805</u>
	<u>\$ 64,805</u>

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 6 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general 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).

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (400,195)
Net Adjustment for Revenue Accruals	(85,747)
Advance In	13,716
Net Adjustment for Expenditure Accruals	165,364
Adjustment for Encumbrances	<u>(20,050)</u>
Budget Basis	<u><u>\$ (326,912)</u></u>

Note 7 - 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.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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 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 public monies deposited with the institution.

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.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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.

Cash on Hand At year end, 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$233,872 and the bank balance was \$773,866. Of the bank balance:

1. \$200,000 of the bank balance was covered by depository insurance; and
2. \$573,866 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 GASB Statement No. 3 requires the Educational Service Center's investments to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service 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 Educational Service Center's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Key Bank - Money Market	\$ 3,304,688	\$ 3,304,688	\$ 3,304,688
STAROhio		1,670,062	1,670,062
Totals	<u>\$ 3,304,688</u>	<u>\$ 4,974,750</u>	<u>\$ 4,974,750</u>

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 5,208,722	\$ 0
Cash on Hand	(100)	0
Investments which are part of the cash management pool:		
STAROhio	(1,670,062)	1,670,062
Key Bank - Money Market Fund	(3,304,688)	3,304,688
GASB Statement No. 3	<u>\$ 233,872</u>	<u>\$ 4,974,750</u>

Note 8 - Interfund Transfers

There were no transfers made during fiscal year 2004.

Note 9 - Interfund Balances

There were no interfund receivables or payables during fiscal year 2004.

Note 10 – Receivables

Receivables at June 30, 2004 consisted of accounts and intergovernmental entitlements and grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds.

The principal items of intergovernmental receivables consisted of \$1,518,234 in tuition.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$ 414,084	\$ 7,799	\$ 0	\$ 421,883
Less Accumulated Depreciation	<u>(185,065)</u>	<u>(63,406)</u>	<u>0</u>	<u>(248,471)</u>
Governmental Activities Capital Assets, Net	<u>\$ 229,019</u>	<u>\$ (55,607)</u>	<u>\$ 0</u>	<u>\$ 173,412</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 6,329
Special	26,647
Support Services:	
Pupil	208
Administration	28,937
Fiscal	<u>1,285</u>
Total Depreciation	<u>\$ 63,406</u>

Note 12 – 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.

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 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 \$150,000 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.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Effective January 1, 1998, the Educational Service Center of Portage County is the fiscal agent of the Consortium.

Note 13 – 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% 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% 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 14- Pension Plans

A. School Employees Retirement System

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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Education Service Center rate is 14% 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 2004, 4.91% of annual covered salary was the portion used to fund health care. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$193,283, \$163,966, and \$132,296, respectively; 100% has been contributed for the fiscal years 2004, 2003 and 2002.

Educational Service Center of Portage County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

B. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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 times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. 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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The Educational Service Center was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$425,958, \$352,607, and \$270,894, respectively; 100% has been contributed for fiscal years 2004, 2003, and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$8,294 made by the Educational Service Center and \$17,186 made by the plan members.

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 15 - Postemployment Benefits

Educational Service Center of Portage County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$30,425 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, the health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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 premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$67,788.

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. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

Note 16 – 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 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.

Educational Service Center of Portage County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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, 2004.

B. Litigation

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

Note 17 – Long Term Obligations

The changes in the Educational Service Center’s long-term obligations during fiscal year 2004 were as follows:

	Outstanding June 30, 2003	Additions	Deductions	Outstanding June 30, 2004	Due Within One Year
Compensated Absences	<u>\$ 113,220</u>	<u>\$ 31,939</u>	<u>\$ (18,996)</u>	<u>\$ 126,163</u>	<u>\$ 19,316</u>

Note 18 – 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 38th Street, NW, Canton, Ohio 44709.

Note 19 – Deferred Revenue

Deferred revenue at June 30, 2004 consisted of the following:

	Balance Sheet
Tuitions Receivable	<u>\$ 1,440,980</u>
Deferred Revenue	<u>\$ 1,440,980</u>

Educational Service Center of Portage County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

Note 20 – State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “the Ohio General Assembly to enact a school funding scheme that is thorough and efficient”.

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

January 27, 2005

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Portage County as of and for the year then ended June 30, 2004, which collectively comprise the Educational Service Center of Portage County's basic financial statements, and have issued our report thereon dated January 27, 2005 which included an explanatory paragraph regarding to accounting change to GASB 34. 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 *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 basic 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 do 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 opinions on the basic 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 basic 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 solely for the information and use of the Board of Education and management and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



**Auditor of State
Betty Montgomery**

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**EDUCATIONAL SERVICE 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
MARCH 29, 2005**