



**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2008**



**Mary Taylor, CPA**  
Auditor of State



**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Erie-Huron-Ottawa Educational Service Center  
Erie County  
2900 Columbus Avenue  
Sandusky, Ohio 44870-5569

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Erie-Huron-Ottawa Educational Service Center, Erie County, Ohio (the ESC), as of and for the year ended June 30, 2008, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Erie-Huron-Ottawa Educational Service Center, Erie County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof 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 26, 2009, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements. The budgetary comparison for the General Fund provides additional information and is not a required part of the basic financial statements. We subjected the budgetary comparison for the General Fund to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 26, 2009

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED**

The management's discussion and analysis of the Erie-Huron-Ottawa Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities increased \$906,813 which represents a 45.38% increase from 2007.
- General revenues accounted for \$2,533,665 in revenue or 12.65% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$17,502,113 or 87.35% of total revenues of \$20,035,778.
- The ESC had \$19,128,965 in expenses related to governmental activities; \$17,502,113 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$2,533,665 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$18,749,997 in revenues and \$17,860,159 in expenditures and other financing uses. During fiscal year 2008, the general fund's fund balance increased \$889,838 from \$2,801,703 to \$3,691,541.

**Using these Basic Financial Statements (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the ESC as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

**Reporting the ESC as a Whole**

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

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, required educational programs and other factors.

In the statement of net assets and statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, and other operations.

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

***Governmental Funds***

Most of the ESC'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 financial statements provide a detailed short-term view of the ESC'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 statement of activities) and governmental funds is reconciled in the basic financial statements.

***Reporting the ESC's Fiduciary Responsibilities***

The ESC is the fiscal agent of the area A-site, NOECA, Bay Area Council of Governments and the Huron-Erie School Employees Insurance Association. NOECA is presented as an investment trust fund. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net assets. The investment trust funds activities for fiscal 2008 are also reported in a separate statement of changes in fiduciary net assets. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

**Notes to the Basic 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 ESC as a Whole**

The statement of net assets provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net assets for 2008 and 2007.

<b>Net Assets</b>		
	<u>Governmental Activities 2008</u>	<u>Governmental Activities 2007</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 6,007,299	\$ 4,800,178
Capital assets, net	<u>162,174</u>	<u>112,989</u>
Total assets	<u>6,169,473</u>	<u>4,913,167</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,769,897	1,682,680
Long-term liabilities	<u>1,494,679</u>	<u>1,232,403</u>
Total liabilities	<u>3,264,576</u>	<u>2,915,083</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	162,174	112,989
Restricted	304,981	84,119
Unrestricted	<u>2,437,742</u>	<u>1,800,976</u>
Total net assets	<u>\$ 2,904,897</u>	<u>\$ 1,998,084</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the ESC's assets exceeded liabilities by \$2,904,897. Of this total, \$304,981 is restricted in use.

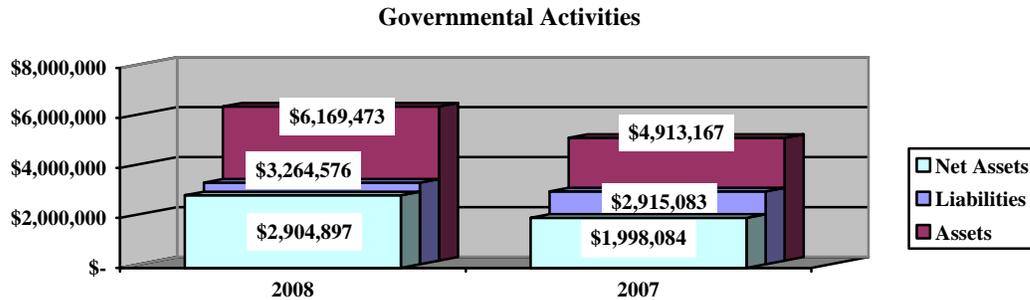
At year-end, capital assets represented 2.63% of total assets. Capital assets include a camper building, furniture and equipment and vehicles. Capital assets, net of accumulated depreciation at June 30, 2008, were \$162,174. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$304,981, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,437,742 may be used to meet the ESC's ongoing obligations to the students and creditors.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2008 and 2007:



The table below shows the change in net assets for fiscal year 2008 and 2007.

**Change in Net Assets**

	Governmental Activities <u>2007</u>	Governmental Activities <u>2007</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 16,397,987	\$ 15,659,881
Operating grants and contributions	1,104,126	857,291
General revenues:		
Grants and entitlements	2,311,574	2,422,673
Investment earnings	221,091	252,266
Other	<u>1,000</u>	<u>137</u>
Total revenues	<u>20,035,778</u>	<u>19,192,248</u>

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

**Change in Net Assets**

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 80,660	\$ 79,346
Special	5,843,480	5,788,511
Support services:		
Pupil	4,730,217	4,437,523
Instructional staff	6,664,839	6,062,592
Board of education	92,882	50,762
Administration	533,470	471,749
Fiscal	349,456	354,902
Business	175,994	171,889
Operations and maintenance	457,703	431,092
Pupil transportation	3,229	773
Central	89,793	57,022
Operations of non-instructional services	11,286	10,539
Extracurricular activities	6,069	5,655
Intergovernmental	89,887	82,531
Total expenses	<u>19,128,965</u>	<u>18,004,886</u>
Change in net assets	906,813	1,187,362
Net assets at beginning of year	<u>1,998,084</u>	<u>810,722</u>
Net assets at end of year	<u><u>\$ 2,904,897</u></u>	<u><u>\$ 1,998,084</u></u>

**Governmental Activities**

Net assets of the ESC's governmental activities increased \$906,813. Services provided to participating districts increased in 2008. Expenditures increased associated to the additional services provided. The increase in revenue outweighed the increase in expenditures, therefore net assets increased. Total governmental expenses of \$19,128,965 were offset by program revenues of \$17,502,113 and general revenues of \$2,533,665. Program revenues supported 91.50% of the total governmental expenses.

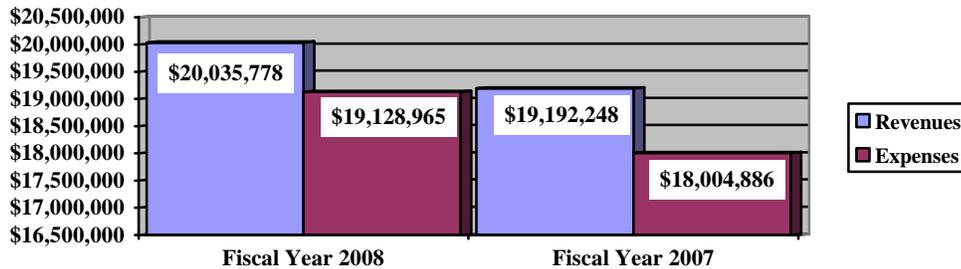
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 81.84% of total governmental revenue.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2008 and 2007.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 unrestricted State grants and entitlements and other general revenues not restricted to a specific program.

**Governmental Activities**

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 80,660	\$ 10,669	\$ 79,346	\$ (11,616)
Special	5,843,480	522,279	5,788,511	291,732
Support services:				
Pupil	4,730,217	357,867	4,437,523	484,474
Instructional staff	6,664,839	704,373	6,062,592	584,631
Board of education	92,882	8,594	50,762	5,258
Administration	533,470	(10,792)	471,749	39,220
Fiscal	349,456	30,394	354,902	45,989
Business	175,994	13,084	171,889	28,505
Operations and maintenance	457,703	(25,797)	431,092	30,711
Pupil transportation	3,229	3,229	773	773
Central	89,793	16,989	57,022	(8,974)
Operation of non-instructional services	11,286	(4,429)	10,539	(1,481)
Extracurricular activities	6,069	284	5,655	(1,324)
Intergovernmental	89,887	108	82,531	(184)
<b>Total expenses</b>	<b>\$ 19,128,965</b>	<b>\$ 1,626,852</b>	<b>\$ 18,004,886</b>	<b>\$ 1,487,714</b>

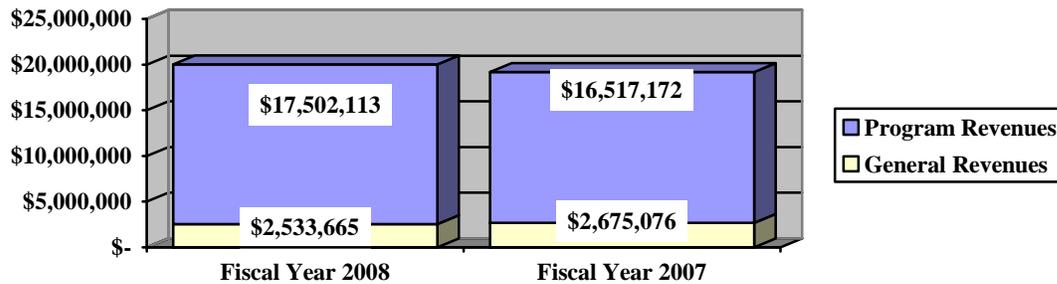
**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

For all governmental activities, program revenue support is 91.50%. The primary support of the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenue for fiscal year 2008 and 2007.

**Governmental Activities - General and Program Revenues**



**The ESC's Funds**

The ESC's governmental funds reported a combined fund balance of \$4,092,595, which is higher than last year's total of \$2,985,369. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	<u>Increase</u>
General	\$ 3,691,541	\$ 2,801,703	\$ 889,838
Other Governmental	<u>401,054</u>	<u>183,666</u>	<u>217,388</u>
Total	<u>\$ 4,092,595</u>	<u>\$ 2,985,369</u>	<u>\$1,107,226</u>

**General Fund**

The ESC's general fund balance increased by \$889,838. The increase in fund balance can be attributed to increases in charges for services provided to other entities as tuition. Previously, services provided to other districts were classified as services provided to other entities. In 2008, Auditor of State Audit Bulletin 2007-005 required the ESC to classify these services provide to other districts as Tuition. This reclassification also leads to the decrease in services provided to other entities. The decrease in earnings on investments can be attributed to the decreasing interest on the ESC's investments. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Tuition	\$ 16,002,308	\$ 15,048,722	6.34 %
Services provided to other entities	130,849	265,714	(50.76) %
Earnings on investments	221,091	250,343	(11.68) %
Intergovernmental	2,313,822	2,430,890	(4.82) %
Other revenues	<u>81,927</u>	<u>57,535</u>	42.40 %
Total	<u>\$ 18,749,997</u>	<u>\$ 18,053,204</u>	3.86 %
<b><u>Expenditures</u></b>			
Instruction	\$ 5,251,852	\$ 5,206,867	0.86 %
Support services	12,450,866	11,445,798	8.78 %
Facilities acquisition and construction	<u>141,938</u>	<u>135,117</u>	5.05 %
Total	<u>\$ 17,844,656</u>	<u>\$ 16,787,782</u>	6.30 %

**Capital Assets**

At the end of fiscal year 2008, the ESC had \$162,174 invested in buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2008 balances compared to 2007:

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

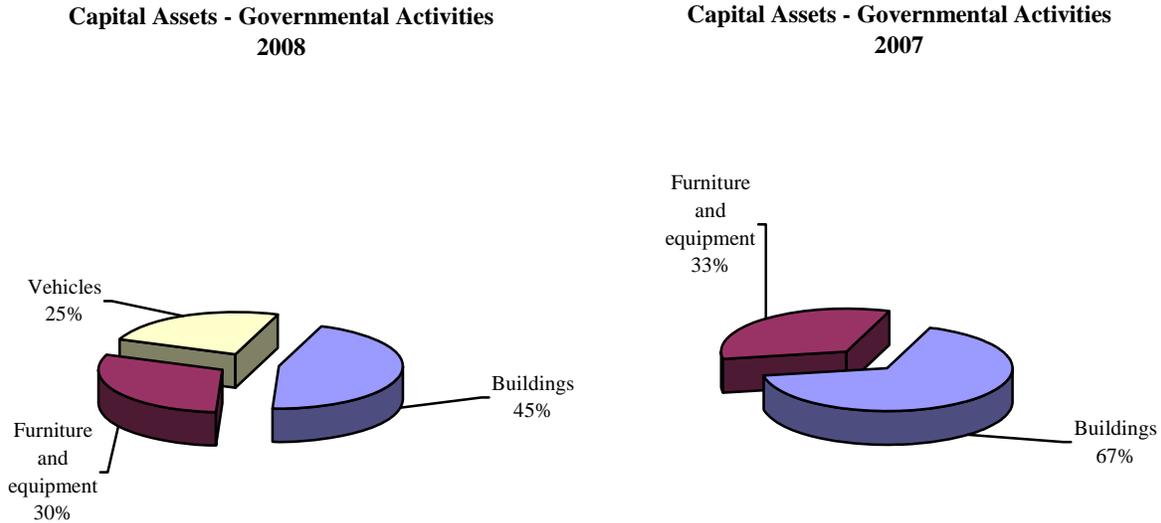
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Buildings	\$ 73,500	\$ 75,300
Furniture and equipment	48,654	37,689
Vehicles	<u>40,020</u>	<u>-</u>
Total	<u>\$ 162,174</u>	<u>\$ 112,989</u>

The increase in capital assets is attributed to additions of \$80,087 and disposals (net of depreciation) of \$6,245, along with depreciation expenses of \$24,657 for fiscal year 2008.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

The graphs below present the District's capital assets (net of depreciation) for fiscal 2008 and fiscal 2007.



See Note 8 to the basic financial statements for additional information on the ESC's capital assets.

**Debt**

The ESC's only outstanding long-term liabilities are compensated absences.

**Current Financial Related Activities**

The Erie-Huron-Ottawa Educational Service Center relies heavily on contracts with local, city and exempted village school districts in the four-county area, State foundation revenue and grants. Contracts with participating districts are expected to increase in fiscal year 2009 and beyond due to additional service requests from districts. The ESC also looks to expand services, providing fiscal, administrative and other services to entities. Currently some of those entities are the Northern Ohio Educational Computer Association, Bay Area Gas Consortium, and the Huron-Erie School Employees Insurance Consortium. These expanded services along with the ESC's cash balance will provide the necessary funds to meet operating expenses in the future.

Under State law, the County Commissioners are no longer required to provide rent-free space to ESC's. The Erie-Huron-Ottawa ESC Governing Board has negotiated a five-year rental agreement beginning January 1, 2009, however beyond that there may be a need to acquire new space or to pay a much higher rent for our current space.

Another challenge facing the Erie-Huron-Ottawa Educational Service Center is the unpredictability in enrollment of participating local districts. State foundation funding is based on the ADM of the local school districts, therefore any changes in enrollment will directly impact State funding.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED  
(Continued)**

**Contacting the ESC's Financial Management**

This financial report is designed to provide our local school districts, and investors and other interested parties with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Betty Schwiefert, Treasurer, North Point ESC, 2900 S. Columbus Avenue, Sandusky, Ohio 44870-5569 or by calling (419) 625-6274.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 5,500,277
Receivables:	
Accounts . . . . .	2,312
Intergovernmental . . . . .	440,704
Prepayments. . . . .	64,006
Depreciable capital assets, net . . . . .	162,174
 Total assets . . . . .	 6,169,473
<b>Liabilities:</b>	
Accounts payable . . . . .	43,020
Accrued wages and benefits . . . . .	1,351,961
Pension obligation payable. . . . .	254,750
Intergovernmental payable . . . . .	118,166
Unearned revenue . . . . .	2,000
Long-term liabilities:	
Due within one year. . . . .	222,003
Due within more than one year . . . . .	1,272,676
 Total liabilities . . . . .	 3,264,576
<b>Net Assets:</b>	
Invested in capital assets . . . . .	162,174
Restricted for:	
Permanent endowment . . . . .	2,645
Locally funded programs. . . . .	123,173
State funded programs. . . . .	179,163
Unrestricted. . . . .	2,437,742
 Total net assets . . . . .	 \$ 2,904,897

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 80,660	\$ 44,973	\$ 25,018	\$ (10,669)
Special . . . . .	5,843,480	4,752,277	568,924	(522,279)
Support services:				
Pupil. . . . .	4,730,217	4,152,434	219,916	(357,867)
Instructional staff . . . . .	6,664,839	5,826,967	133,499	(704,373)
Board of education . . . . .	92,882	84,288		(8,594)
Administration. . . . .	533,470	534,275	9,987	10,792
Fiscal. . . . .	349,456	282,868	36,194	(30,394)
Business. . . . .	175,994	162,910		(13,084)
Operations and maintenance . . . .	457,703	483,500		25,797
Pupil transportation. . . . .	3,229			(3,229)
Central . . . . .	89,793	62,804	10,000	(16,989)
Operation of non-instructional services. . . . .	11,286	7,729	7,986	4,429
Extracurricular activities. . . . .	6,069	2,962	2,823	(284)
Intergovernmental . . . . .	89,887		89,779	(108)
Total governmental activities . . . . .	\$ 19,128,965	\$ 16,397,987	\$ 1,104,126	(1,626,852)
 <b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs . . . . .				
				2,311,574
				221,091
				1,000
Total general revenues . . . . .				2,533,665
Change in net assets . . . . .				906,813
<b>Net assets at beginning of year. . . . .</b>				<b>1,998,084</b>
<b>Net assets at end of year . . . . .</b>				<b>\$ 2,904,897</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 5,078,822	\$ 421,455	\$ 5,500,277
Receivables:			
Accounts . . . . .	2,312		2,312
Intergovernmental . . . . .	418,204	22,500	440,704
Prepayments . . . . .	63,006	1,000	64,006
Total assets. . . . .	<u>\$ 5,562,344</u>	<u>\$ 444,955</u>	<u>\$ 6,007,299</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	\$ 39,770	\$ 3,250	\$ 43,020
Accrued wages and benefits . . . . .	1,341,983	9,978	1,351,961
Compensated absences payable . . . . .	48,254		48,254
Pension obligation payable . . . . .	251,820	2,930	254,750
Intergovernmental payable. . . . .	112,923	5,243	118,166
Deferred revenue. . . . .	74,053	22,500	96,553
Unearned revenue . . . . .	2,000		2,000
Total liabilities. . . . .	<u>1,870,803</u>	<u>43,901</u>	<u>1,914,704</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	319,033	178,524	497,557
Reserved for prepayments . . . . .	63,006	1,000	64,006
Reserved for principal endowment. . . . .		2,645	2,645
Unreserved, undesignated, reported in:			
General fund . . . . .	3,309,502		3,309,502
Special revenue funds. . . . .		218,885	218,885
Total fund balances . . . . .	<u>3,691,541</u>	<u>401,054</u>	<u>4,092,595</u>
Total liabilities and fund balances. . . . .	<u>\$ 5,562,344</u>	<u>\$ 444,955</u>	<u>\$ 6,007,299</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2008

**Total governmental fund balances** \$ 4,092,595

*Amounts reported for governmental activities on the  
statement of net assets are different because:*

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 162,174

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds.

Accounts	\$	1,276	
Intergovernmental		<u>95,277</u>	

Total 96,553

Long-term liabilities, such as compensated absences, are not  
due and payable in the current period and therefore are not  
reported in the funds. (1,446,425)

**Net assets of governmental activities** \$ 2,904,897

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Services provided to other entities . . . . .	\$ 130,849	\$ 205,318	\$ 336,167
Tuition . . . . .	16,002,308		16,002,308
Earnings on investments . . . . .	221,091	1,499	222,590
Extracurricular . . . . .		16,109	16,109
Contributions and donations . . . . .		9,310	9,310
Other local revenues . . . . .	81,927	550	82,477
Intergovernmental - Intermediate. . . . .		7,900	7,900
Intergovernmental - State. . . . .	2,313,822	920,448	3,234,270
Intergovernmental - Federal . . . . .		142,469	142,469
Total revenues . . . . .	<u>18,749,997</u>	<u>1,303,603</u>	<u>20,053,600</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular. . . . .		77,133	77,133
Special . . . . .	5,251,852	569,574	5,821,426
Support Services:			
Pupil . . . . .	4,608,224	86,884	4,695,108
Instructional staff . . . . .	6,360,253	159,917	6,520,170
Board of education . . . . .	92,882		92,882
Administration . . . . .	507,453	9,994	517,447
Fiscal . . . . .	311,711	28,710	340,421
Business. . . . .	179,521		179,521
Operations and maintenance . . . . .	364,444		364,444
Central . . . . .	26,378	57,170	83,548
Operation of non-instructional services . . . . .		16,380	16,380
Extracurricular activities . . . . .		6,069	6,069
Facilities acquisition and construction . . . . .	141,938		141,938
Intergovernmental pass through. . . . .		89,887	89,887
Total expenditures. . . . .	<u>17,844,656</u>	<u>1,101,718</u>	<u>18,946,374</u>
Excess of revenues over expenditures. . . . .	<u>905,341</u>	<u>201,885</u>	<u>1,107,226</u>
<b>Other financing sources (uses):</b>			
Transfers in. . . . .		15,503	15,503
Transfers out . . . . .	(15,503)		(15,503)
Total other financing sources (uses). . . . .	<u>(15,503)</u>	<u>15,503</u>	
Net change in fund balances. . . . .	889,838	217,388	1,107,226
<b>Fund balances at beginning of year. . . . .</b>	<b>2,801,703</b>	<b>183,666</b>	<b>2,985,369</b>
<b>Fund balances at end of year . . . . .</b>	<b><u>\$ 3,691,541</u></b>	<b><u>\$ 401,054</u></b>	<b><u>\$ 4,092,595</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Net change in fund balances - total governmental funds** **\$ 1,107,226**

*Amounts reported for governmental activities in the statement of activities are different because:*

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

Capital asset additions	\$	80,087	
Current year depreciation		<u>(24,657)</u>	
Total			55,430

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,245)

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

Accounts		(222)	
Intergovernmental		<u>(17,600)</u>	
Total			(17,822)

Some expenses, such as compensated absences, reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (231,776)

**Change in net assets of governmental activities** **\$ 906,813**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008

	<b>Investment Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 1,316,850	\$ 6,645,590
Receivables:		
Accounts . . . . .		42,048
Due from other governments . . . . .		2,722
Accrued interest. . . . .		750
	1,316,850	6,691,110
Total assets. . . . .	1,316,850	\$ 6,691,110
<b>Liabilities:</b>		
Accounts payable. . . . .		\$ 5,664
Due to other governments . . . . .		320
Deposits held and due to others . . . . .		6,685,126
		6,691,110
Total liabilities . . . . .		\$ 6,691,110
<b>Net Assets:</b>		
Net assets available for pool participants . . . . .	1,316,850	
Total net assets . . . . .	\$ 1,316,850	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		<b>Investment Trust</b>
Net increase in net assets resulting from operations . . . . .	\$	68,896
Distributions paid to participants. . . . .		(68,896)
Share transactions:		
Purchase of units . . . . .		3,027,045
Redemptions of units. . . . .		(2,837,665)
Net increase in net assets and shares resulting from share transactions . . . . .		189,380
Change in net assets . . . . .		189,380
<b>Net assets at beginning of year . . . . .</b>		<b>1,127,470</b>
<b>Net assets at end of year . . . . .</b>	<b>\$</b>	<b>1,316,850</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 1 - DESCRIPTION OF THE ESC**

The Erie-Huron-Ottawa Educational Service Center (the "ESC") 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 ESC is an Educational Service Center as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Governing Board of Education (eleven members) and is responsible for the provision of public education to residents of the local school districts that it services.

The ESC is the result of the July 1, 1997, merger of the Erie County Educational Service Center and the Ottawa County Educational Service Center, and the July 1, 1999, merger of the Erie-Ottawa Educational Service Center and the Huron County Educational Service Center, under the authority of the Ohio Revised Code Section 3311.053 and 3311.054 and resolutions made by the Governing Boards.

The ESC is staffed by 187 certified employees, 138 classified employees. .

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (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 ESC 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 ESC's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, preschool and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise have access to organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

The following organizations are described due to their relationship to the ESC:

*JOINTLY GOVERNED ORGANIZATIONS*

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. Natural gas is purchased through the council of governments. The only cost to the ESC is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. The ESC serves as fiscal agent for the BACG. Financial activity for fiscal year 2008 is reported in the basic financial statements as an agency fund.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school district. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees and a representative from the fiscal agent. The ESC serves as fiscal agent for NOECA. Financial activity for 2008 is reported in the basic financial statements as an investment trust fund. The ESC paid NOECA \$22,661 in fiscal year 2008 for their services.

*PUBLIC ENTITY RISK POOLS*

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school district pays an enrollment fee to the Plan to cover the costs of administering the program.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 13 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial activity for 2008 is reported in the basic financial statements as an agency fund. This financial activity does not include federal securities for which the treasurer of the EHOVE Career Center is the custodian.

**B. Fund Accounting**

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The ESC does not have any proprietary funds.

*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 is the ESC's major governmental fund:

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

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

*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 ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's trust fund is an investment trust fund which accounts for monies held by the ESC as fiscal agent for NOECA. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 government-wide statements and the statements for governmental funds.

Fiduciary funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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 ESC, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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 ESC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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: tuition, grants and contract services.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

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

**E. Cash and Investments**

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

During fiscal year 2008, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$221,091, which includes \$45,522 assigned from other ESC funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the ESC's investment account at fiscal year-end is provided in Note 4.

**F. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC's capitalization threshold is \$5,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building/improvements	30 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**G. Compensated Absences**

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Contractually required pension obligations are reported as liabilities on the fund statements when due. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**H. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences 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 year.

**I. Fund Balance Reserves**

The ESC reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, principal endowment and prepayments.

**J. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. .

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

**K. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying amount of the asset.

**L. Estimates**

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

**M. Interfund Activity**

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2008, the ESC has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the ESC; however, certain disclosures related to postemployment benefits (see Note 12) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the ESC.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the ESC.

**B. Deficit Fund Balances**

Fund balances at June 30, 2008, included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Management information systems	\$ 25
Preschool grant (State)	661
Entry year grant	40
Alternative learning grant	72
Title I	601
Preschool grant (Federal)	511

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "equity in pooled cash and cash equivalents". Statutes require the classification of monies held by the ESC 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 ESC 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 Governing Board has identified as not required for use within the current five 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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.

Interim monies may 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 items (1) and (2) above 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 (STAR Ohio);
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.

Protection of the ESC'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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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 ESC 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.

**A. Cash on Hand**

At year-end, the ESC had \$43 in undeposited cash on hand which is included on the financial statements of the ESC as part of “equity in pooled cash and cash equivalents.”

**B. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all ESC deposits was \$318,236. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosure”, as of June 30, 2008, \$1,449,425 of the ESC’s bank balance of \$1,549,425 was exposed to custodial risk as discussed below, while \$100,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

**C. Investments**

As of June 30, 2008, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 13,144,438</u>	<u>\$ 13,144,438</u>

*Interest Rate Risk:* The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC’s investment policy limits investment portfolio maturities to five years or less.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 318,236
Investments	13,144,438
Cash on hand	<u>43</u>
Total	<u>\$ 13,462,717</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 5,500,277
Investment Trust	1,316,850
Agency funds	<u>6,645,590</u>
Total	<u>\$ 13,462,717</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:

General fund \$ 15,503

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2008, consisted of intergovernmental (billings to school districts for user charged services) and accounts (charges for individual tuition on other services). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Intergovernmental	\$ 440,704
Accounts	<u>2,312</u>
Total	<u>\$ 443,016</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**NOTE 7 - STATE FUNDING**

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. In fiscal year 2008, the State Board of Education reduced ESC funding by approximately 8.98%.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment. The local school districts to which the ESC provides services have agreed to pay a per pupil amount to provide additional funding for services provided by the ESC, \$9.50 per pupil for school district located in Erie County and \$6.50 for schools district located in Huron, Ottawa, and Sandusky Counties.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>06/30/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/08</u>
<i>Capital assets, being depreciated:</i>				
Buildings	\$ 90,000			\$ 90,000
Furniture and equipment	278,868	\$ 36,838	\$ (58,465)	257,241
Vehicles	58,439	43,249	(58,439)	43,249
Total capital assets, being depreciated	<u>427,307</u>	<u>80,087</u>	<u>(116,904)</u>	<u>390,490</u>
<i>Less: accumulated depreciation</i>				
Buildings	(14,700)	(1,800)		(16,500)
Furniture and equipment	(241,179)	(19,628)	52,220	(208,587)
Vehicles	(58,439)	(3,229)	58,439	(3,229)
Total accumulated depreciation	<u>(314,318)</u>	<u>(24,657)</u>	<u>110,659</u>	<u>(228,316)</u>
Governmental activities capital assets, net	<u>\$ 112,989</u>	<u>\$ 55,430</u>	<u>\$ (6,245)</u>	<u>\$ 162,174</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 1,800
Special	4,178

Support services:

Instructional staff	5,148
Administration	734
Fiscal	627
Business	8,941
Pupil transportation	3,229

Total depreciation expense	<u>\$ 24,657</u>
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**NOTE 9 - LONG-TERM OBLIGATIONS**

The ESC's long-term obligations at fiscal year-end consist of the following:

	<u>Balance</u> <u>Outstanding</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Outstanding</u> <u>06/30/08</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Compensated absences	<u>\$ 1,232,403</u>	<u>\$ 509,446</u>	<u>\$ (247,170)</u>	<u>\$ 1,494,679</u>	<u>\$ 222,003</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid, which is primarily the general fund.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 10 - RISK MANAGEMENT**

A. The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2008, the ESC has contracted with various insurance commercial carriers to provide insurance coverage for the following risks:

- Commercial property.
- Inland marine.
- Business liability.
- Business personal property.
- Business auto.
- Education liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

**B. Employee Health Benefits**

The ESC provides employee health care benefits through the Huron-Erie School Employees Insurance Association.

The ESC has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 13 school districts that provide public education within Erie and Huron Counties. The school districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow. In the event of withdrawal, the ESC shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

**C. Workers' Compensation Group Rating Plan**

The ESC participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. Participants in the Plan are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its Plan tier rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs and actuarial services to the Plan.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The ESC contributes to the School Employees Retirement System (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, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$351,603, \$400,512 and \$401,270, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

**B. State Teachers Retirement System of Ohio**

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 11 - PENSION PLANS – (Continued)**

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006, were \$1,172,343, \$1,108,176, and \$1,085,843, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$25,897 made by the ESC and \$59,305 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)**

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$228,275, \$198,283, and \$218,572, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$25,334, \$27,235, and \$31,938, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$90,180, \$85,244, and \$83,526, respectively; 100 percent has been contributed for fiscal years 2008, 2007, and 2006.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 13 - CONTINGENCIES**

**A. Grants**

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

**B. Litigation**

The ESC is party to legal proceedings. The ESC's management believes that the outcome of these claims and legal proceedings will not have a material effect on the financial condition of the ESC.

**NOTE 14 - SIGNIFICANT SUBSEQUENT EVENT**

On July 1, 2008, the Erie-Huron-Ottawa Educational Service Center changed its name to the North Point Educational Service Center.

**NOTE 15 - EXTERNAL INVESTMENT POOL**

The ESC serves as fiscal agent for Northern Ohio Educational Association (NOECA) which is a legally separate entity. The ESC pools the monies of NOECA and the Association with the ESC's for investment purposes. Investments are not specifically purchased in the name of NOECA. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. NOECA is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns based upon its fund balance to the entire ESC's fund balance.

During fiscal year 2008, investments of the ESC were limited to investments in STAR Ohio. The investment in STAR Ohio is valued at amounts reported by the State Treasurer and is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The statement of net assets and statement of changes in net assets for the external investment trust fund has been reported in the basic financial statements. Condensed financial information for the ESC's investment pool follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 15 - EXTERNAL INVESTMENT POOL – (Continued)**

Statement of Net Assets  
June 30, 2008

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 13,462,717
<i>Total Assets</i>	<u>\$ 13,462,717</u>
<b>Net Assets Held in Trust for Pool Participants</b>	
Internal Portion	\$ 12,145,867
External Portion	<u>1,316,850</u>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u>\$ 13,462,717</u>

Statement of Changes in Net Assets  
For Fiscal Year Ended June 30, 2008

<b>Additions</b>	
Interest	\$ 925,334
Capital Transactions	<u>5,167,204</u>
<i>Total Additions</i>	6,092,538
<b>Deductions</b>	
Distributions to Participants	<u>927,103</u>
<i>Total Deductions</i>	927,103
<i>Change in Net Assets</i>	5,165,435
<i>Net Assets, Beginning of Year</i>	<u>8,297,282</u>
<i>Net Assets, End of Year</i>	<u>\$ 13,462,717</u>

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL COMPARISON -  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Services provided to other entities . . . . .	\$ 210,000	\$ 95,000	\$ 216,059	\$ 121,059
Tuition . . . . .	8,412,000	16,037,000	15,884,203	(152,797)
Earnings on investments . . . . .	240,000	240,000	221,370	(18,630)
Other local revenues . . . . .	71,500	71,500	84,343	12,843
Intergovernmental - State . . . . .	9,290,000	2,315,000	2,313,822	(1,178)
<b>Total revenues . . . . .</b>	<u>18,223,500</u>	<u>18,758,500</u>	<u>18,719,797</u>	<u>(38,703)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Special . . . . .	6,497,742	6,391,851	5,269,958	1,121,893
Support Services:				
Pupil . . . . .	5,415,832	5,420,594	4,719,982	700,612
Instructional staff . . . . .	7,459,223	8,014,633	6,505,664	1,508,969
Board of education . . . . .	69,525	101,025	91,825	9,200
Administration . . . . .	610,546	610,546	503,840	106,706
Fiscal . . . . .	398,469	398,469	323,218	75,251
Business . . . . .	227,632	227,632	181,542	46,090
Operations and maintenance . . . . .	419,448	467,067	381,565	85,502
Central . . . . .	28,680	30,280	27,078	3,202
Facilities acquisition and construction . . . . .	141,918	141,918	141,158	760
<b>Total expenditures . . . . .</b>	<u>21,269,015</u>	<u>21,804,015</u>	<u>18,145,830</u>	<u>3,658,185</u>
Excess of revenues over (under) expenditures . . . . .	<u>(3,045,515)</u>	<u>(3,045,515)</u>	<u>573,967</u>	<u>3,619,482</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	10,000	10,000	14,462	4,462
Transfers out . . . . .	(15,503)	(15,503)	(15,503)	
Other miscellaneous use of funds . . . . .	(1,083,558)	(1,083,558)		1,083,558
Sale of assets . . . . .	500	500	174	(326)
<b>Total other financing sources (uses) . . . . .</b>	<u>(1,088,561)</u>	<u>(1,088,561)</u>	<u>(867)</u>	<u>1,087,694</u>
Net change in fund balance . . . . .	(4,134,076)	(4,134,076)	573,100	4,707,176
<b>Fund balance at beginning of year . . . . .</b>	3,949,473	3,949,473	3,949,473	
<b>Prior year encumbrances appropriated . . . . .</b>	184,601	184,601	184,601	
<b>Fund balance at end of year . . . . .</b>	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ 4,707,174</u>	<u>\$ 4,707,176</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 1 - BUDGETARY PROCESS**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The ESC's Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as both the original budgeted amounts and the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time the final appropriations were passed by the Board.

The ESC's Board adopts an annual appropriations 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 and function level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

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

The schedule of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER  
ERIE COUNTY**

**NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ 573,100
Net adjustment for revenue accruals	30,200
Net adjustment for expenditure accruals	(70,474)
Net adjustment for other sources/uses	(14,636)
Adjustment for encumbrances	<u>371,648</u>
GAAP basis	<u>\$ 889,838</u>

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Erie-Huron-Ottawa Educational Service Center  
Erie County  
2900 Columbus Avenue  
Sandusky, Ohio 44870-5569

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Erie-Huron-Ottawa Educational Service Center, Erie County, (the ESC) as of and for the year ended June 30, 2008, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the ESC's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the ESC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the ESC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ESC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the ESC's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the ESC's internal control will not prevent or detect a material financial statement misstatement.

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

#### **Compliance and Other Matters**

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

We intend this report solely for the information and use of the audit committee, management, and the Governing Board. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 26, 2009



**Mary Taylor, CPA**  
Auditor of State

**ERIE-HURON-OTTAWA EDUCATIONAL SERVICE CENTER**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 24, 2009**