



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Educational Service Center
Putnam County
124 Putnam Parkway
Ottawa, Ohio 45875-8657

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Putnam County, Ohio (the ESC), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the ESC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the ESC's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Putnam County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the ESC's basic financial statements taken as a whole.

The schedules of revenues, expenditures and changes in fund balance – budget and actual present additional analysis and are not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

January 7, 2015

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

The management's discussion and analysis of the Putnam County 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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities decreased \$339,007 which represents an 8.05% decrease from 2013.
- General revenues accounted for \$508,782 in revenue or 10.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,394,321 or 89.62% of total revenues of \$4,903,103.
- The ESC had \$5,242,110 in expenses related to governmental activities; \$4,394,321 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$508,782 were not adequate to provide for these programs.
- The ESC's major governmental funds are the General Fund, the Migrant School Grant Fund and the IDEA Part B Grants Fund. The General Fund had \$3,198,827 in revenues and \$3,206,048 in expenditures. During fiscal year 2014, the General Fund's fund balance decreased \$7,221 from \$829,489 to \$822,268.
- The Migrant School Grant Fund had \$314,065 in revenues and \$197,121 in expenditures. During fiscal year 2014, the Migrant School Grant Fund's fund balance increased \$116,944 from \$75,251 to \$192,195.
- The IDEA Part B Grants Fund had \$1,032,597 in revenues and \$1,030,254 in expenditures. During fiscal year 2014, the IDEA Part B Grants Fund's fund balance increased \$2,343 from \$979 to a balance of \$3,322.

Using these Basic Financial Statements

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 position and statement of activities provide information about the activities of the whole ESC, presenting 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, the Migrant School Grant Fund and the IDEA Part B Grants Fund are by far the most significant funds and the only governmental funds reported as major funds.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Reporting the ESC as a Whole

Statement of Net Position 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 2014?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, 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 position and changes in that position. This change in net position 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 the ESC's facility conditions, required educational programs and other factors.

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

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 major governmental funds are the General Fund, Migrant School Grant Fund and the IDEA Part B Grants 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 than 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 position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities and Changes in Fiduciary Net Position. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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

Recall that the statement of net position provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net position for 2014 and 2013.

	Net Position	
	Governmental Activities 2014	Governmental Activities 2013
<u>Assets</u>		
Current and other assets	\$1,722,648	\$2,013,374
Capital assets	3,695,640	3,814,742
Total assets	<u>5,418,288</u>	<u>5,828,116</u>
<u>Liabilities</u>		
Current liabilities	611,191	593,662
Long-term liabilities	934,589	1,022,939
Total liabilities	<u>1,545,780</u>	<u>1,616,601</u>
<u>Net Position</u>		
Net investment in capital assets	3,170,556	3,255,117
Restricted	305,584	538,222
Unrestricted	396,368	418,176
Total net position	<u><u>\$3,872,508</u></u>	<u><u>\$4,211,515</u></u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the ESC's assets exceeded liabilities by \$3,872,508.

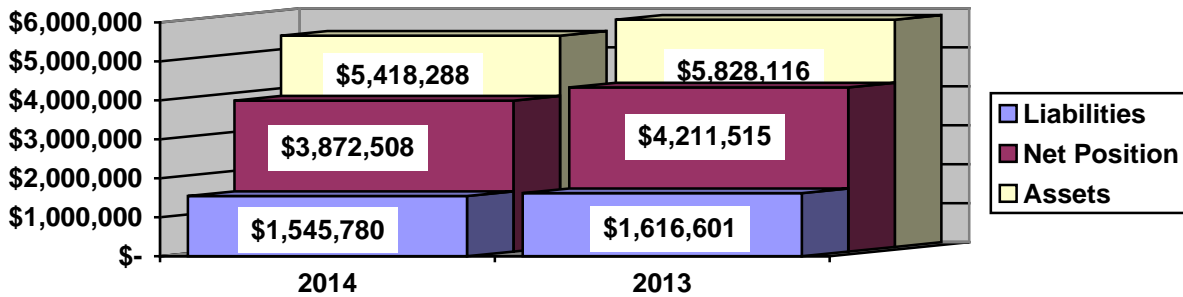
At year-end, capital assets represented 68.21% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2014, was \$3,170,556. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net position, \$305,584, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$396,368 may be used to meet the ESC's ongoing obligations to the students and creditors.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Governmental Activities



The table below shows the change in net position for fiscal year 2014 and 2013.

Change in Net Position

	Governmental Activities 2014	Governmental Activities 2013
Revenues		
Program revenues:		
Charges for services and sales	\$2,689,967	\$2,086,299
Operating grants and contributions	1,704,354	3,084,093
General revenues:		
Grants and entitlements	363,372	667,693
Investment earnings	2,459	3,260
Miscellaneous	142,951	149,552
Total Revenues	4,903,103	5,990,897

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

	Change in Net Position	
	Governmental	Governmental
	Activities	Activities
	<u>2014</u>	<u>2013</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$182,368	\$388,728
Special	1,613,106	940,661
Adult/continuing	59,395	44,438
Other		117
Support services:		
Pupil	869,170	846,739
Instructional staff	633,417	1,604,037
Board of education	31,639	25,926
Administration	205,348	296,147
Fiscal	350,238	357,924
Business	2,784	22,991
Operations and maintenance	161,534	163,417
Pupil transportation	45,457	106,407
Central	14,439	108,341
Operation of non-instructional services:		
Other non-instructional services	19,114	19,650
Intergovernmental pass-through	1,030,254	1,021,951
Interest and fiscal charges	<u>23,847</u>	<u>25,308</u>
Total expenses	<u>5,242,110</u>	<u>5,972,782</u>
Change in net position	(339,007)	18,115
Net position at beginning of year	<u>4,211,515</u>	<u>4,193,400</u>
Net position at end of year	<u><u>\$3,872,508</u></u>	<u><u>\$4,211,515</u></u>

Governmental Activities

Net position of the ESC's governmental activities decreased \$339,007. Total governmental expenses of \$5,242,110 were offset by program revenues of \$4,394,321 and general revenues of \$508,782. Program revenues supported 83.83% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales. These revenue sources represent 54.86% of total governmental revenue.

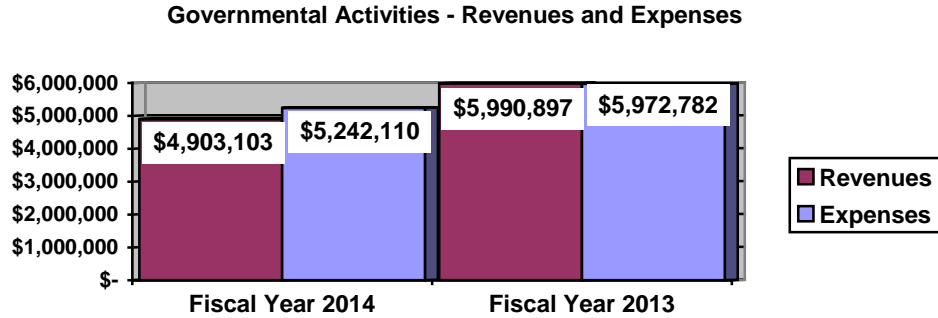
The largest expense of the ESC is for support services. Support services expenses totaled \$2,314,026 or 44.14% of total governmental expenses for fiscal year 2014.

Operating grants and contributions decreased due the District receiving less monies related to grants such as, Drug Free School Grants and miscellaneous federal grants, during fiscal year 2014 compared to fiscal year 2013.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2014 and 2013.



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, investment earnings, and miscellaneous revenues.

	Governmental Activities			
	Total Cost of Services 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program expenses				
Instruction:				
Regular	\$182,368	(\$201,119)	\$388,728	(\$3,881)
Special	1,613,106	(859,238)	940,661	(1,092,927)
Adult/continuing	59,395	17,143	44,438	(57,765)
Other			117	117
Support services:				
Pupil	869,170	790,845	846,739	535,604
Instructional staff	633,417	534,295	1,604,037	955,157
Board of education	31,639	31,639	25,926	25,926
Administration	205,348	182,822	296,147	192,281
Fiscal	350,238	235,630	357,924	190,985
Business	2,784	2,784	22,991	(2,699)
Operations and maintenance	161,534	76,822	163,417	66,032
Pupil transportation	45,457	6,757	106,407	(70,354)
Central	14,439	4,443	108,341	32,900
Operation of non-instructional services:				
Other non-instructional services	19,114	3,462	19,650	(2,886)
Intergovernmental pass-through	1,030,254	(2,343)	1,021,951	8,592
Interest and fiscal charges	23,847	23,847	25,308	25,308
Total expenses	\$5,242,110	\$847,789	\$5,972,782	\$802,390

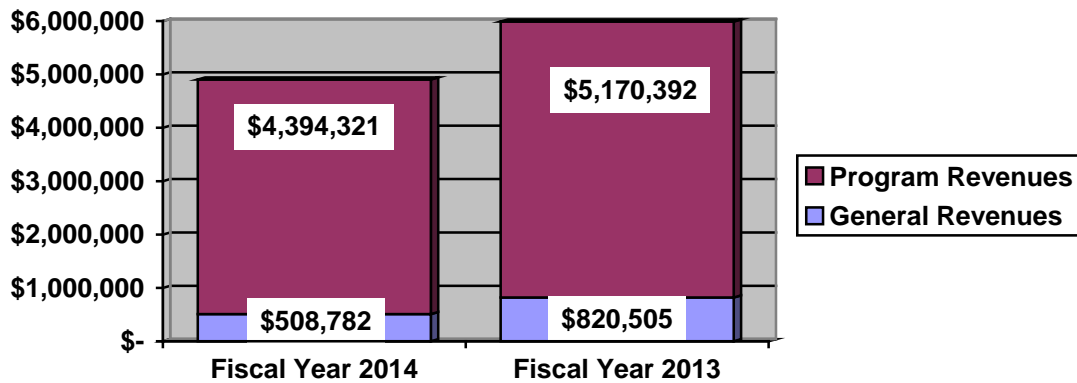
**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The dependence upon program revenues for governmental activities is apparent; program revenue support is 83.83%. The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

The graph below presents the ESC's governmental activities revenue for fiscal year 2014 and 2013.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,008,161, which is higher than last year's total of \$956,864. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance (deficit) June 30, 2014	Fund Balance June 30, 2013	Increase (Decrease)	Percentage Change
General	\$822,268	\$829,489	(\$7,221)	(0.87) %
Migrant School Grant	192,195	75,251	116,944	155.41 %
IDEA Part B Grant	3,322	979	2,343	239.33 %
Other Governmental	(9,624)	51,145	(60,769)	(118.82) %
Total	\$1,008,161	\$956,864	\$51,297	5.36 %

General Fund

The ESC's General Fund balance decreased by \$7,221. The decrease in fund balance can be attributed to an increase in expenditures related to instruction and due to a decrease in revenues related to intergovernmental revenues. Instructional expenses increased during the current year due to an increase in expenses related to salaries and benefits and operations and maintenance. Expenditures exceeded revenues for fiscal year 2014 by \$7,221. Revenues related to contract services increased due to an increase in services provided to other entities. Intergovernmental revenues decreased due to a decrease in revenues received from the state of Ohio. Revenues related to tuition increased due to an increase in revenues received from local schools.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The table that follows assists in illustrating the financial activities and fund balance of the General Fund.

	2014 Amount	2013 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Tuition	\$2,519,738	\$1,906,469	\$613,269	32.17 %
Contract Services	89,005	86,723	2,282	2.63 %
Earnings on investments	2,537	3,596	(1,059)	(29.45) %
Intergovernmental	363,372	667,693	(304,321)	(45.58) %
Other revenues	224,175	242,659	(18,484)	(7.62) %
Total	<u>\$3,198,827</u>	<u>\$2,907,140</u>	<u>\$291,687</u>	10.03 %
<u>Expenditures</u>				
Instruction	\$1,436,296	\$843,262	\$593,034	70.33 %
Support services	1,710,026	2,100,716	(390,690)	(18.60) %
Non-instructional services	1,213		1,213	100.00 %
Debt service	58,513	58,513		%
Total	<u>\$3,206,048</u>	<u>\$3,002,491</u>	<u>\$203,557</u>	6.78 %

Migrant School Grant Fund

The Migrant School Grant Fund had \$314,065 in revenues and \$197,121 in expenditures. During fiscal year 2014, the Migrant School Grant Fund's fund balance increased \$116,944 from \$75,251 to \$192,195.

IDEA Part B Grants Fund

The IDEA Part B Grants Fund had \$1,032,597 in revenues and \$1,030,254 in expenditures. During fiscal year 2014, the IDEA Part B Grants Fund's fund balance increased \$2,343 from \$979 to a balance of \$3,322.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the ESC had \$3,695,640 invested in land, buildings and improvements, furniture and equipment, and vehicles, net of accumulated depreciation. This entire amount is reported in governmental activities. The following table shows fiscal year 2014 balances compared to 2013:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

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

	Governmental Activities	
	2014	2013
Land	\$156,000	\$156,000
Building and improvements	3,309,091	3,345,455
Furniture and equipment	230,549	311,446
Vehicles		1,841
	\$3,695,640	\$3,814,742

The overall decrease in capital assets is due to depreciation expense of \$125,986 exceeding capital outlays of \$6,884 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2014, the ESC had \$525,084 in capital lease obligations outstanding. Of this total, \$36,060 is due within one year and \$489,024 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2014	Governmental Activities 2013
Capital lease obligations	\$525,084	\$559,625

See Note 9 to the basic financial statements for additional information on the ESC's debt administration.

Current Financial Related Activities

Overall, the Educational Service Center is strong financially. As the preceding information shows, the ESC relies heavily upon grants, special education billings from the local districts, and state foundation payments. State funding is predicted to decline for the next several years impacting the ESC and its local districts.

The challenge for the ESC's Management is to continue to provide the resources necessary to meet student needs and be able to stay within our budget for the year. The ESC has anticipated a lower than normal increase in funding due to declining enrollment in the county. This not only impacts the ESC's income, but that of our locals.

Another challenge facing the ESC is the maintenance and renting of a new facility that houses our offices, as well as, a higher education facility with six flexible classrooms. The cost of the facility is around \$3.3 million, with our investment being \$1 million over a 25 year lease purchase agreement with the Village of Ottawa. A grant from the Economic Development Administration and the Village will be contributing the remaining portion of the funding.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The last challenge facing the ESC is the continued talk of regionalization of services for education in Ohio. To date the outlook of this is looking more favorable to ESCs and we do not see any major changes to our operations in the next several years.

The ESC's system of budgeting and internal controls is well regarded. All of the ESC's financial abilities will be needed to meet the financial challenges of the future.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors 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 Mr. Michael Siebeneck, Treasurer, Putnam County ESC, 124 Putnam Parkway, Ottawa, Ohio 45875-8657.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,416,356
Receivables:	
Accounts	5,312
Intergovernmental	300,437
Accrued interest	543
Capital assets:	
Land	156,000
Depreciable capital assets, net	3,539,640
Capital assets, net	3,695,640
 Total assets	 \$5,418,288
 Liabilities:	
Accrued wages and benefits payable	\$514,354
Pension obligation payable	77,985
Intergovernmental payable	17,167
Accrued interest payable	1,685
Long-term liabilities:	
Due within one year	126,543
Due in more than one year	808,046
 Total liabilities	 1,545,780
 Net position:	
Net investment in capital assets	3,170,556
Restricted for:	
Locally funded programs	3,471
State funded programs	9,495
Federally funded programs	292,618
Unrestricted	396,368
Total net position	\$3,872,508

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
			<u>Governmental Activities</u>
Governmental activities:			
Instruction:			
Regular	\$182,368	\$291,680	\$91,807
Special	1,613,106	2,228,058	244,286
Adult/continuing	59,395		42,252
Support services:			
Pupil	869,170		78,325
Instructional staff	633,417		99,122
Board of education	31,639		
Administration	205,348		22,526
Fiscal	350,238	89,005	25,603
Business	2,784		
Operations and maintenance	161,534	81,224	3,488
Pupil transportation	45,457		38,700
Central	14,439		9,996
Operation of non-instructional services:			
Other non-instructional services	19,114		15,652
Intergovernmental pass-through	1,030,254		1,032,597
Interest and fiscal charges	23,847		
Total governmental activities	<u>\$5,242,110</u>	<u>\$2,689,967</u>	<u>\$1,704,354</u>
General Revenues:			
Grants and entitlements not restricted to specific programs			363,372
Investment ear			2,459
Miscellaneous			142,951
Total general rev			<u>508,782</u>
Change in net po			(339,007)
Net position at beginning of year			<u>4,211,515</u>
Net position at end of year			<u>\$3,872,508</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Migrant School Grant</u>	<u>IDEA Part B Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$1,362,422	\$50,441		\$3,493	\$1,416,356
Receivables:					
Accounts	5,312				5,312
Intergovernmental		187,350	\$20,831	92,256	300,437
Accrued interest	543				543
Interfund loans	48,760				48,760
Total assets	<u>\$1,417,037</u>	<u>\$237,791</u>	<u>\$20,831</u>	<u>\$95,749</u>	<u>\$1,771,408</u>
Liabilities:					
Accrued wages and benefits payable	\$505,509	\$5,829		\$3,016	\$514,354
Pension obligation payable	74,352	1,905		1,728	77,985
Intergovernmental payable	14,365	194	\$2,047	561	17,167
Interfund loans payable			15,462	33,298	48,760
Total liabilities	<u>594,226</u>	<u>7,928</u>	<u>17,509</u>	<u>38,603</u>	<u>658,266</u>
Deferred inflows of resources:					
Accrued interest not available	543				543
Other nonexchange transactions not available		37,668		66,770	104,438
Total deferred inflows of resources	<u>543</u>	<u>37,668</u>		<u>66,770</u>	<u>104,981</u>
Total liabilities and deferred inflows of resources	<u>594,769</u>	<u>45,596</u>	<u>17,509</u>	<u>105,373</u>	<u>763,247</u>
Fund balances:					
Restricted:					
Adult education				11,216	11,216
Migrant program		192,195			192,195
Special education			3,322		3,322
Other purposes				3,471	3,471
Assigned:					
Student instruction	5,343				5,343
Student and staff support	53,391				53,391
Unassigned (deficit)	763,534			(24,311)	739,223
Total fund balances	<u>822,268</u>	<u>192,195</u>	<u>3,322</u>	<u>(9,624)</u>	<u>1,008,161</u>
Total liabilities, deferred inflows and fund balances	<u>\$1,417,037</u>	<u>\$237,791</u>	<u>\$20,831</u>	<u>\$95,749</u>	<u>\$1,771,408</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

Total governmental fund balances		\$1,008,161
 <i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,695,640
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Accrued interest receivable	\$543	
Intergovernmental receivable	104,438	
Total	104,438	104,981
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligations	(525,084)	
Compensated absences	(409,505)	
Accrued interest payable	(1,685)	
Total	(936,274)	(936,274)
Net position of governmental activities		\$3,872,508

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Migrant School Grant</u>	<u>IDEA Part B Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Tuition	\$2,519,738				\$2,519,738
Earnings on investments	2,537				2,537
Rental income	81,224				81,224
Contract services	89,005				89,005
Other local revenues	142,951				142,951
Intergovernmental - intermediate				\$14,237	14,237
Intergovernmental - state	363,372			195,778	559,150
Intergovernmental - federal		\$314,065	\$1,032,597	454,509	1,801,171
Total revenues	<u>3,198,827</u>	<u>314,065</u>	<u>1,032,597</u>	<u>664,524</u>	<u>5,210,013</u>
Expenditures:					
Current:					
Instruction:					
Regular	68,169			114,275	182,444
Special	1,368,127	87,580		146,841	1,602,548
Adult/continuing				59,395	59,395
Support services:					
Pupil	722,159	6,621		136,798	865,578
Instructional staff	397,920	29,408		145,221	572,549
Board of education	31,639				31,639
Administration	179,251	20,802		20,969	221,022
Fiscal	274,062	8,730		63,203	345,995
Business				2,784	2,784
Operations and maintenance	95,520	3,500		7,965	106,985
Pupil transportation	6,845	27,071		11,541	45,457
Central	2,630			11,809	14,439
Operation of non-instructional services:					
Other non-instructional services	1,213	13,409		4,492	19,114
Intergovernmental pass-through			1,030,254		1,030,254
Debt service:					
Principal retirement	34,541				34,541
Interest and fiscal charges	23,972				23,972
Total expenditures	<u>3,206,048</u>	<u>197,121</u>	<u>1,030,254</u>	<u>725,293</u>	<u>5,158,716</u>
Net change in fund balances	(7,221)	116,944	2,343	(60,769)	51,297
Fund balances at beginning of year	<u>829,489</u>	<u>75,251</u>	<u>979</u>	<u>51,145</u>	<u>956,864</u>
Fund balances (deficit) at end of year	<u>\$822,268</u>	<u>\$192,195</u>	<u>\$3,322</u>	<u>(\$9,624)</u>	<u>\$1,008,161</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM 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, 2014**

Net change in fund balances - total governmental funds \$51,297

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$6,884	
Current year depreciation	<u>(125,986)</u>	
Total		(119,102)

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

Accrued interest	(78)	
Intergovernmental	<u>(306,832)</u>	
Total		(306,910)

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

34,541

Governmental funds report expenditures for interest when it is due.

In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

125

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

1,042

Change in net position of governmental activities (\$339,007)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$200,092
Receivables:	
Accounts	12,892
Intergovernmental	5,697
	<hr/>
Total assets	<u>\$218,681</u>
Liabilities:	
Accrued wages and benefits	\$11,462
Pension obligation payable	4,203
Intergovernmental payable	486
Due to other governments	202,530
	<hr/>
Total liabilities	<u>\$218,681</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Gifts and contributions	\$500
Deductions:	
Scholarships awarded	\$500
Change in Net Position	
Net Position Beginning of Year	
Net Position End of Year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Putnam County Educational Service Center (the ESC) is the successor to the former Putnam County Board of Education. County Boards of Education were formed in Ohio as a result of the passage of Senate Bill 9 in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Putnam County Board of Education formally adopted these changes and thus became the "Governing Board of the Putnam County Educational Service Center".

The Governing Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policies and procedures, and approves all financial activities. The ESC is staffed by 45 certified employees (including administrative) and 46 classified employees to provide services to approximately 5,861 students in 9 school districts throughout the County.

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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. 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 and preschool operations 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 access the 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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).

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The ESC is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert counties, and the cities of St. Marys and Wapakoneta. The organization was 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 districts.

NOACSC is governed by a Board of Directors. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio, 45804.

Millstream Career Cooperative

The Millstream Career Cooperative ("Millstream") is a distinct political subdivision of the State of Ohio established under Section 3313.90. Millstream operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Putnam and Hancock Counties Educational Service Centers serve in an ex-officio capacity for all meetings. To obtain financial information write to Michael Barnhart, Treasurer, Findlay City Schools, at 1219 West Main Cross, Suite 101, Findlay, Ohio, 45840.

The ESC also participates in a group purchasing pool for insurance, described in Note 10.

A. 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.

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 and deferred outflows of resources 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the ESC's major governmental funds:

General Fund -The General Fund is used to account for and report all financial resources not accounted for and reported 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.

Migrant School Grant - A special revenue fund used to account for and report grant monies restricted to expenditures for children of migratory agricultural workers or migratory fishers to obtain a secondary school diploma, gain employment, be placed in other post-secondary education or training or be placed in a facility of higher education.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IDEA Part B Grants Fund - A special revenue fund used to account for and report grant monies restricted to expenditures for providing an appropriate public education to all children with disabilities.

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to expenditures for specified purposes.

PROPRIETARY FUNDS

Proprietary funds are used to account for proprietary activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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 under a trust agreement for individuals, private organizations, or other governments. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency fund accounts for monies held for other governmental entities.

B. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position 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 deferred outflows and all liabilities and deferred inflows associated with the operation of the ESC are included on the statement of net position.

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

C. 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.

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the ESC that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the ESC that is applicable to a future reporting period.

Revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as deferred inflows. Grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows on the governmental fund financial statements.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

D. 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 basic financial statements.

During fiscal year 2014, investments were limited to certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposits, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the General Fund. Interest revenue credited to the General Fund during fiscal year 2014 amounted to \$2,537, which includes \$98 assigned from other 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 year end is provided in Note 4.

E. 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 position, 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 deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2014, the ESC maintained its capitalization threshold at \$1,000. 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. The ESC does not possess infrastructure.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	20 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	5 - 10 years

G. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net position. As of June 30, 2014, the ESC had \$48,760 of interfund receivables in the General Fund and payable from major and nonmajor governmental funds.

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave liability 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 sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2014, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2014 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

I. 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 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.

J. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the ESC Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The ESC applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

K. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the ESC has implemented GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the ESC.

B. Restatement of Fund Balances

The ESC’s beginning balances have been restated due to a change in fund classification as of June 30, 2013. In fiscal year 2013, the Drug Free School Grant Fund was classified as a major fund and the Migrant School Grant Fund was classified as a Nonmajor Governmental Fund. Whereas, in fiscal year 2014, the Drug Free School Grant Fund was classified as a Nonmajor Governmental Fund and the Migrant School Grant Fund was classified as a major fund.

The restatement of fund balances had the following effect on the ESC’s fund balances as previously reported:

	General	Migrant School Grant	IDEA Part B	Drug Free School	Nonmajor Governmental
Fund Balance at June 30, 2013	\$829,489		\$979	\$15,915	\$110,481
Change in Fund Structure		\$75,251		(\$15,915)	(59,336)
Adjusted Fund Balance at July 1, 2013	<u>\$829,489</u>	<u>\$75,251</u>	<u>\$979</u>		<u>\$51,145</u>

C. C. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Public school preschool	\$7,084
Alternative schools	93
Race to the top	2
IDEA preschool grant for the handicapped	42
Miscellaneous federal grants	17,090

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 resulted from adjustments for accrued liabilities.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify 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.

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. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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.

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. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all ESC deposits was \$1,616,448. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$927,911 of the ESC's bank balance of \$1,657,825 was covered by the FDIC, while \$729,914 was exposed to custodial risk as discussed below.

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.

B. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2014:

<u>Cash and investments per note disclosure:</u>	
Carrying amount of deposits	<u>\$1,616,448</u>
 <u>Cash and investments per statement of net position:</u>	
Governmental activities	\$1,416,356
Agency funds	200,092
Total	<u>\$1,616,448</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2014 consisted of the following interfund loans receivable and payable, as reported in the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	IDEA Part-B Grants	\$15,462
General Fund	Nonmajor governmental funds	<u>33,298</u>
Total		<u><u>\$48,760</u></u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2014 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net position is as follows:

Governmental activities:	
Accounts	\$5,312
Intergovernmental	300,437
Accrued interest	<u>543</u>
Total receivables	<u><u>\$306,292</u></u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2014</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$156,000			\$156,000
<i>Total capital assets, not being depreciated</i>	<u>156,000</u>			<u>156,000</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	3,600,000			3,600,000
Furniture and equipment	822,777	\$6,884	(\$17,588)	812,073
Vehicles	22,087			22,087
<i>Total capital assets, being depreciated</i>	<u>4,444,864</u>	<u>6,884</u>	<u>(17,588)</u>	<u>4,434,160</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(254,545)	(36,364)		(290,909)
Furniture and equipment	(511,331)	(87,781)	17,588	(581,524)
Vehicles	(20,246)	(1,841)		(22,087)
<i>Total accumulated depreciation</i>	<u>(786,122)</u>	<u>(125,986)</u>	<u>\$17,588</u>	<u>(894,520)</u>
Governmental activities capital assets, net	<u>\$3,814,742</u>	<u>(\$119,102)</u>		<u>\$3,695,640</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$2,035
<u>Support services:</u>	
Pupil	732
Instructional staff	67,875
Administration	64
Fiscal	731
Operations and maintenance	<u>54,549</u>
Total depreciation expense	<u>\$125,986</u>

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the ESC entered into a lease agreement for a building. The terms of this lease agreement provides an option to purchase the asset.

Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Governmental capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum payments as of the dates of their inception. A corresponding liability has been recorded and is presented as a component of long-term liabilities on the statement of net position. During fiscal year 2014, principal payments equaled \$34,541 and interest payments equaled \$23,972. These amounts are reflected as debt service expenditures in the fund financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2014:

Fiscal Year Ending <u>June 30,</u>	<u>Payments</u>
2015	\$58,513
2016	58,513
2017	58,513
2018	58,513
2019	58,513
2020 - 2024	292,565
2025 - 2026	<u>87,769</u>
Total future minimum lease payments	672,899
Less: amount representing interest	<u>(147,815)</u>
Present value of future minimum lease payments	<u><u>\$525,084</u></u>

NOTE 9 - LONG-TERM OBLIGATIONS

Changes in the ESC's governmental activities long-term obligations during the year were as follows:

<u>Governmental activities:</u>	<u>Balance</u> <u>07/01/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/14</u>	<u>Amount Due</u> <u>Within</u> <u>One Year</u>
Capital lease obligation	\$559,625		(\$34,541)	\$525,084	\$36,060
Compensated absences	463,314	\$103,180	(156,989)	409,505	90,483
Total long-term obligations	<u>\$1,022,939</u>	<u>\$103,180</u>	<u>(\$191,530)</u>	<u>\$934,589</u>	<u>\$126,543</u>

Compensated absences will be paid out of the fund from which the employee is paid, which is primarily the General Fund. See Note 8 regarding the capital lease obligation.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 10 - RISK MANAGEMENT

A. Risk Pool Membership

The ESC is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 130 members. SORSA is a joint self-insurance pool. SORSA assumes the risk of loss up to the limits of the ESC's policy. SORSA covers the following risks:

- General Liability
- Commercial Liability
- Employee Benefits Liability
- School Leaders Errors and Omissions
- Sexual Misconduct
- Commercial Umbrella
- Vehicle

The ESC contributes to the funding, operating and maintaining of the SORSA joint self insurance pool. The ESC's contributions cover deductible losses, loss fund contributions, insurance costs, and administrative costs.

The ESC paid \$8,755 in premiums to the pool for fiscal year 2014 coverage. Settled claims have not exceeded this coverage in any of the past three fiscal years.

SORSA financial statements are available by contacting SORSA at:

Schools of Ohio Risk Sharing Authority, Inc.
OSBA Building
8050 North High Street
Columbus, Ohio, 43235-6483

B. Employee Group Health, Dental and Prescription Drugs

The ESC participates as a member of the Putnam County School Insurance Group, a public entity risk pool, administered by Huntington Trust. The ESC converted its fully-insured medical insurance program to partial self insurance through participation in this public entity risk pool. Medical Mutual of Ohio provides claims review and processing. The ESC maintains stop-loss coverage for its medical insurance program. Aggregate stop loss is maintained for expected claims.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

C. Workers' Compensation

For fiscal year 2014, the ESC participated in the Ohio School Boards Association/Ohio Association of School Business Officials Compmanagement Workers' Compensation Group Rating Program (the"Plan"), an insurance purchasing pool. 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. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the Plan.

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, disability, survivor 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 ESC 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, under "Employers/Audit Resources".

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 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$110,935, \$122,924 and \$120,383, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 11 - PENSION PLANS (Continued)

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 website at www.strsoh.org, under "Publications".

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.

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 2014, plan members were required to contribute 11 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 through June 30, 2013 (then one percent increases annually through July 1, 2016) 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, 2014, 2013 and 2012 were \$282,905, \$310,590 and \$327,775, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$4,815 made by the ESC and \$3,784 made by the plan members.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 11 - PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Governing 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board 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 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$19,534, \$21,361 and \$24,534, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$6,436, \$6,944 and \$7,109, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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, under "Publications" 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 2014, 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, 2014, 2013 and 2012 were \$21,762, \$23,892 and \$25,213, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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 involved in no material litigation as either plaintiff or defendant.

EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)

NOTE 14 - OTHER COMMITMENTS

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$58,734
Migrant School Grant	115,909
IDEA Part-B Grants	569
Other governmental	<u>29,313</u>
Total	<u><u>\$204,525</u></u>

**EDUCATIONAL SERVICE CENTER
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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$2,510,457	\$2,366,009	\$2,519,703	\$153,694
Earnings on investments	4,000	4,000	2,537	(1,463)
Rental income	71,500	78,100	83,924	5,824
Contract services	94,365	96,665	89,005	(7,660)
Other local revenues	100,000	111,450	142,795	31,345
Intergovernmental - state	222,727	345,927	363,372	17,445
Total revenues	<u>3,003,049</u>	<u>3,002,151</u>	<u>3,201,336</u>	<u>199,185</u>
Expenditures:				
Current:				
Instruction:				
Regular	54,714	54,491	66,253	(11,762)
Special	1,381,806	1,658,279	1,289,958	368,321
Support services:				
Pupil	543,701	663,312	712,264	(48,952)
Instructional staff	576,225	616,485	499,607	116,878
Board of education	27,334	27,226	32,216	(4,990)
Administration	238,346	264,706	190,929	73,777
Fiscal	288,874	287,962	271,917	16,045
Operations and maintenance	185,360	194,736	186,074	8,662
Pupil transportation	11,263	11,240	6,845	4,395
Central	3,180	3,171	2,630	541
Operation of non-instructional services:				
Other non-instructional services	26,987	26,983	1,213	25,770
Total expenditures	<u>3,337,790</u>	<u>3,808,591</u>	<u>3,259,906</u>	<u>548,685</u>
Excess of expenditures over revenues	<u>(334,741)</u>	<u>(806,440)</u>	<u>(58,570)</u>	<u>747,870</u>
Other financing sources (uses):				
Refund of prior year's receipts			(2,716)	(2,716)
Transfers in		1,081	1,261	180
Transfers (out)			(1,261)	(1,261)
Advances in			295,764	295,764
Advances (out)			(48,760)	(48,760)
Total other financing sources (uses)		<u>1,081</u>	<u>244,288</u>	<u>243,207</u>
Net change in fund balance	(334,741)	(805,359)	185,718	991,077
Fund balance at beginning of year	1,094,430	1,094,430	1,094,430	
Prior year encumbrances appropriated	23,192	23,192	23,192	
Fund balance at end of year	<u>\$782,881</u>	<u>\$312,263</u>	<u>\$1,303,340</u>	<u>\$991,077</u>

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MIGRANT SCHOOL GRANT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - federal	\$409,297	\$432,892	\$208,579	(\$224,313)
Expenditures:				
Current:				
Instruction:				
Special	251,231	264,593	145,134	119,459
Support Services:				
Pupil	14,245	15,003	13,325	1,678
Instructional staff	36,843	38,802	30,786	8,016
Administration	28,355	29,863	22,785	7,078
Fiscal	17,546	18,479	8,730	9,749
Operations and maintenance	10,445	11,000	11,000	
Pupil transportation	60,614	63,837	52,128	11,709
Operation of non-instructional services:				
Other non-instructional services	24,388	25,685	24,529	1,156
Total expenditures	<u>443,667</u>	<u>467,262</u>	<u>308,417</u>	<u>158,845</u>
Net change in fund balance	(34,370)	(34,370)	(99,838)	(65,468)
Fund balance at beginning of year	(87,595)	(87,595)	(87,595)	
Prior year encumbrances appropriated	<u>\$121,965</u>	<u>\$121,965</u>	<u>121,965</u>	
Fund balance (deficit) at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>(\$65,468)</u></u>	<u><u>(\$65,468)</u></u>

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
IDEA PART B GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - federal	\$1,097,879	\$1,150,714	\$1,129,883	(\$20,831)
Expenditures:				
Current:				
Instruction:				
Regular	515,235	542,585	542,585	
Support Services:				
Pupil	301,023	317,002	317,002	
Instructional staff	124,388	130,991	130,991	
Fiscal	43,696	46,015	41,215	4,800
Operation of non-instructional services:				
Other non-instructional services	11,011	11,595	11,595	
Total expenditures	<u>995,353</u>	<u>1,048,188</u>	<u>1,043,388</u>	<u>4,800</u>
Excess of revenues over expenditures	<u>102,526</u>	<u>102,526</u>	<u>86,495</u>	<u>(16,031)</u>
Other financing sources (uses):				
Advances in			15,462	15,462
Advances out			(102,526)	(102,526)
Total other financing sources (uses)			<u>(87,064)</u>	<u>(87,064)</u>
Net change in fund balance	102,526	102,526	(569)	(103,095)
Fund balance at beginning of year	(7,339)	(7,339)	(7,339)	
Prior year encumbrances appropriated	7,339	7,339	7,339	
Fund balance (deficit) at end of year	<u>\$102,526</u>	<u>\$102,526</u>	<u>(\$569)</u>	<u>(\$103,095)</u>

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - BUDGETARY BASIS OF ACCOUNTING

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 the original budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Board.

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

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

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 schedules of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the General Fund and major special revenue funds are 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).

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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 and major special revenue funds are as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Migrant School Grant Fund</u>	<u>IDEA Part-B Grants Fund</u>
Budget basis	\$185,718	(\$99,838)	(\$569)
Net adjustment for revenue accruals	(2,665)	105,486	(97,286)
Net adjustment for expenditure accruals	(2,352)	(4,613)	12,565
Net adjustment for other sources/uses	(244,288)		87,064
Funds budgeted elsewhere	(2,368)		
Adjustment for encumbrances	<u>58,734</u>	<u>115,909</u>	<u>569</u>
GAAP basis	<u><u>(\$7,221)</u></u>	<u><u>\$116,944</u></u>	<u><u>\$2,343</u></u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR <i>Pass through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Twenty-First Century Community Learning Centers	84.287	\$156,268	\$120,479
Adult Education - Basic Grants to States	84.002	49,554	49,477
Migrant Education - State Grant Program	84.011	195,875	192,766
Even Start - State Program	84.213	118,478	115,466
ARRA - Race to the Top	84.395	350	350
<u>Special Education Cluster:</u>			
Special Education - Preschool Grant	84.173	21,238	21,237
Special Education - Grants to States	84.027	981,077	907,597
<i>Passed Through State Education Resource Center</i>			
Special Education - Grants to States	84.027	148,807	135,223
Total Special Education - Grants to States		<u>1,129,884</u>	<u>1,042,820</u>
Total Special Education Cluster		<u>1,151,122</u>	<u>1,064,057</u>
<i>Passed Through Ohio Department of Health</i>			
Help Me Grow	84.181	45,316	41,783
<i>Direct Assistance</i>			
Safe and Drug-Free Schools and Communities - National Programs	84.184L	264,419	148,939
Total United States Department of Education		<u>1,981,382</u>	<u>1,733,317</u>
UNITED STATES DEPARTMENT OF LABOR			
<i>Passed through Putnam County Job and Family Services</i>			
Workforce Investment Act - Youth Activities	17.259	36,165	34,753
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Summer Food Service Program for Children	10.559	12,703	
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety</i>			
State and Community Highway Safety	20.600	23,782	27,376
Total Federal Awards Receipts and Expenditures		<u><u>\$2,054,032</u></u>	<u><u>\$1,795,446</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Educational Service Center, Putnam County, Ohio's (the ESC) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require the ESC to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The ESC has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

Educational Service Center
Putnam County
124 Putnam Parkway
Ottawa, Ohio 45875-8657

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Putnam County, Ohio (the ESC) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 7, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the ESC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the ESC's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the ESC's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the ESC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the ESC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State

Columbus, Ohio

January 7, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Educational Service Center
Putnam County
124 Putnam Parkway
Ottawa, Ohio 45875-8657

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Educational Service Center, Putnam County, Ohio's (the ESC) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the ESC's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the ESC's major federal program.

Management's Responsibility

The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the ESC's compliance for the ESC's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the ESC's major program. However, our audit does not provide a legal determination of the ESC's compliance.

Opinion on the Major Federal Program

In our opinion, the ESC complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the ESC's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 7, 2015

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education – Grants to States CFDA #84.027 and Special Education – Preschool Grant CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS FOR FEDERAL AWARDS

None

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Material weakness due to undetected errors in financial statements.	Yes	

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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

PUTNAM 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
JANUARY 20, 2015**