



**Auditor of State  
Betty Montgomery**



PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Educational Service Center  
Putnam County  
336 E. Main Street, P.O. Box 190  
Ottawa, Ohio 45875-0190

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center (the Center) as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General, Idea Part B Grant, and Miscellaneous Federal Grant funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards receipts and expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

February 22, 2005

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

The 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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$151,037 which represents an 8.09 percent decrease from 2003.
- General revenues accounted for \$1,041,774 in revenue or 17.75 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,827,304 or 82.25 percent of total revenues of \$5,869,078.
- The ESC had \$6,020,115 in expenses related to governmental activities; \$4,827,304 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 \$1,041,774 were not adequate to provide for these programs.
- The ESC's major governmental funds are the general fund, Idea Part "B" grants fund and miscellaneous federal grants fund. The general fund had \$3,350,104 in revenues and \$3,374,289 in expenditures. During fiscal year 2004, the general fund's fund balance decreased \$24,185 from \$1,269,051 to \$1,244,866.
- The Idea Part "B" grants fund had \$677,409 in revenues and \$781,632 in expenditures. During fiscal year 2004, the Idea Part "B" grants fund's fund balance decreased \$104,223 from \$106,150 to \$1,927.
- The miscellaneous federal grants fund had \$505,623 in revenues and \$404,928 in expenditures. During fiscal year 2004, the miscellaneous federal grants fund's fund balance increased \$100,695 from (\$7,191) to \$93,504.

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

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

#### **Reporting the ESC as a Whole**

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

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The "Statement of Net Assets" and the "Statement of Activities" answer this question. These statements include all assets, liabilities, revenues, and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the "Statement of Net Assets" and the "Statement of Activities", the Governmental Activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

##### Fund Financial Statements

Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund, Idea Part "B" grants fund and miscellaneous federal 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 Assets" and the "Statement of Activities") and governmental funds is reconciled in the basic financial statements.

##### Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in a separate "Statement of Fiduciary Net Assets." These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.



**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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 Assets" provides the perspective of the ESC as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the ESC's net assets for 2004.

<u>Net Assets</u>	
	<u>Governmental Activities 2004</u>
<b>Assets</b>	
Current and other assets	\$ 2,228,748
Capital assets	<u>570,645</u>
<i>Total assets</i>	<u>2,799,393</u>
<b>Liabilities</b>	
Current liabilities	560,280
Long-term liabilities	<u>524,916</u>
<i>Total liabilities</i>	<u>1,085,196</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	477,644
Restricted	420,251
Unrestricted	<u>816,302</u>
<i>Total net assets</i>	<u>\$ 1,714,197</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$1,714,197. Of this total, \$816,302 is unrestricted in use.

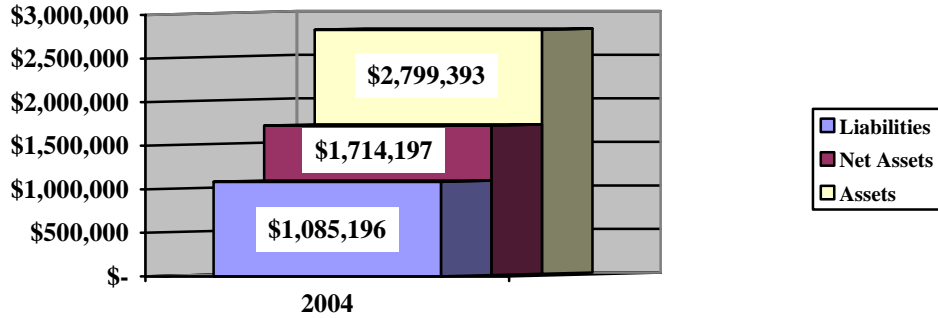
At year-end, capital assets represented 20.38 percent of total assets. Capital assets include buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$477,644. These capital assets are used to provide services 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.

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

A portion of the ESC's net assets, \$420,251, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$816,302 may be used to meet the ESC's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the ESC has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets	
	Governmental Activities 2004
<b>Revenues</b>	
Program revenues:	
Charges for services and sales	\$ 2,308,406
Operating grants and contributions	2,518,898
General revenues:	
Grants and entitlements	947,501
Investment earnings	31,841
Other	62,432
<i>Total revenues</i>	<u>5,869,078</u>

(Continued)

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

Change in Net Assets (Continued)	
	Governmental Activities 2004
<b>Expenses</b>	
Program expenses:	
Instruction:	
Regular	\$ 763,807
Special	977,200
Adult/continuing	26,177
Other	220
Support services:	
Pupil	903,385
Instructional staff	1,831,756
Board of education	30,133
Administration	212,667
Fiscal	199,922
Operations and maintenance	61,730
Pupil transportation	59,950
Central	36,317
Operations of non-instructional services	96,966
Intergovernmental pass-through	813,756
Interest and fiscal charges	6,129
<i>Total expenses</i>	<i>6,020,115</i>
<i>Decrease in net assets</i>	<i>\$ 151,037</i>

**Governmental Activities**

Net assets of the ESC's governmental activities decreased \$151,037. Total governmental expenses of \$6,020,115 were offset by program revenues of \$4,827,304 and general revenues of \$1,041,774. Program revenues supported 80.19 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 39.33 percent of total governmental revenue.

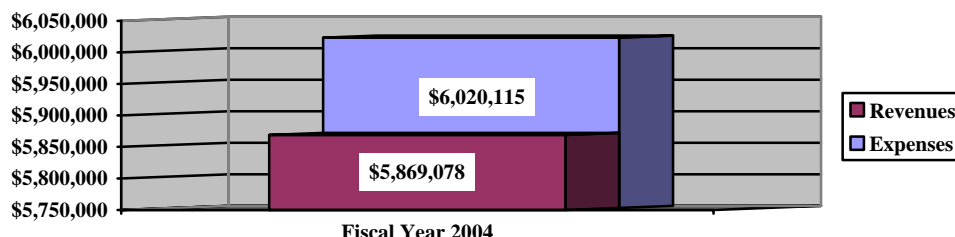
The largest expense of the ESC is for instructional programs. Instruction expenses totaled \$1,767,404 or 29.36 percent of total governmental expenses for fiscal 2004.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2004.

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**Governmental Activities - Revenues and Expenses**



The "Statement of Activities" shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

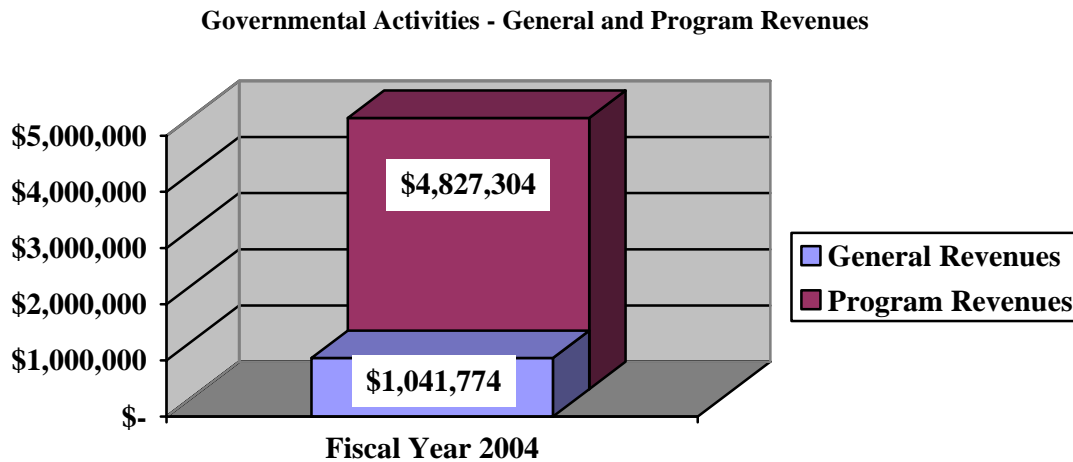
Governmental Activities		
	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>		
Instruction:		
Regular	\$ 763,807	\$ 440,651
Special	977,200	(3,526,796)
Adult/continuing	26,177	26,177
Other	220	68
Support services:		
Pupil	903,385	903,385
Instructional staff	1,831,756	1,831,756
Board of education	30,133	30,133
Administration	212,667	212,667
Fiscal	199,922	199,922
Operations and maintenance	61,730	61,730
Pupil transportation	59,950	59,950
Central	36,317	36,317
Operations of non-instructional services	96,966	96,966
Intergovernmental pass-through	813,756	813,756
Interest and fiscal charges	6,129	6,129
<b>Total expenses</b>	<b>\$ 6,020,115</b>	<b>\$ 1,192,811</b>

For all governmental activities, general revenue support is 19.81 percent. The ESC's contract services, charges for services, and operating grants and contributions, as a whole, are by far the primary support for ESC's students.

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

The graph below presents the ESC's governmental activities revenue for fiscal year 2004.



**The ESC's Funds**

The ESC's governmental funds reported a combined fund balance of \$1,503,049, which is higher than last year's total of \$1,490,585. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 1,244,866	\$ 1,269,051	\$ (24,185)	(1.91) %
Idea Part "B" Grants	1,927	106,150	(104,223)	(98.18) %
Miscellaneous Federal Grants	93,504	(7,191)	100,695	1,400.29 %
Other Governmental	<u>162,752</u>	<u>122,575</u>	<u>40,177</u>	32.78 %
Total	<u>\$ 1,503,049</u>	<u>\$ 1,490,585</u>	<u>\$ 12,464</u>	0.84 %

General Fund

The ESC's general fund balance decreased by \$24,185 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to increasing revenues still being lower than increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$24,185. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
<b>Revenues</b>				
Contract Services	\$ 1,980,410	\$ 1,790,464	\$ 189,946	10.61 %
Earnings on investments	31,841	55,950	(24,109)	(43.09) %
Intergovernmental	947,501	1,064,604	(117,103)	(11.00) %
Other revenues	390,352	265,695	124,657	46.92 %
Total	<u>\$ 3,350,104</u>	<u>\$ 3,176,713</u>	<u>\$ 173,391</u>	5.46 %
<b>Expenditures</b>				
Instruction	\$ 1,016,754	\$ 921,481	\$ 95,273	10.34 %
Support services	2,344,438	2,308,607	35,831	1.55 %
Debt service	13,097	13,097	-	-
Total	<u>\$ 3,374,289</u>	<u>\$ 3,243,185</u>	<u>\$ 131,104</u>	4.04 %

Idea Part "B" Grants Fund

The Idea Part "B" grants fund had \$677,409 in revenues and \$781,632 in expenditures. During fiscal year 2004, the Idea Part "B" grants fund's fund balance decreased \$104,223 from \$106,150 to \$1,927.

Miscellaneous Federal Grants Fund

The miscellaneous federal grants fund had \$505,623 in revenues and \$404,928 in expenditures. During fiscal year 2004, the miscellaneous federal grants fund's fund balance increased \$100,695 from (\$7,191) to \$93,504.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$4,473,921 and final budgeted revenues and other financing sources were \$2,930,172. Actual revenues and other financing sources for fiscal 2004 was \$3,373,752. This represents a \$443,580 increase over final budgeted revenues. This was the result of conservative estimates for revenues by the Center.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,421,685 were increased to \$4,584,542 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$3,466,081, which was \$1,118,461 less than the final budget appropriations. This was the result of the Center budgeting all available resources while being conservative in the actual spending.

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**Capital Assets and Debt Administration**

Capital Assets

At the end of fiscal 2004, the ESC had \$570,645 invested in buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30 (Net of Depreciation)	
	Governmental Activities	
	2004	2003
Building and improvements	\$ 270,038	\$ 286,973
Furniture and equipment	294,832	404,997
Vehicles	5,775	7,225
<i>Total</i>	<u>\$ 570,645</u>	<u>\$ 699,195</u>

The overall decrease in capital assets of \$128,550 is due to depreciation expense of \$125,496, and disposals of \$23,022 (net of accumulated depreciation) exceeding capital outlays of \$19,968 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, 2004, the ESC had \$93,001 in capital lease obligations outstanding. Of this total, \$41,074 is due within one year and \$51,927 is due in more than one year. The following table summarizes the capital lease obligations outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities	Governmental Activities
	2004	2003
Capital lease obligations	\$ 93,001	\$ 131,317
<i>Total</i>	<u>\$ 93,001</u>	<u>\$ 131,317</u>

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

**Current Financial Related Activities**

As the preceding information shows, the ESC relies heavily upon grants, Special Ed billings from the local districts, and state foundation payments. State funding is predicted to be flat 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

## **PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)**

normal increase in funding due to declining enrollment in the county. This not only impacts the ESC's income, but that of our local districts.

Another challenge facing the ESC is the construction of a new facility to house our offices, as well as, a higher education facility with six flexible classrooms. Approximate cost of the facility is running 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 EDA and the Village will be contributing the remaining portion of the funding. We are looking at spring of 2006 as the completion date for the project.

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 ESC's 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 citizen's 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, 336 E. Main Street, P.O. Box 190, Ottawa, Ohio 45875-0190.



**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	Governmental Activities
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 1,702,683
Receivables:	
Accounts	5
Intergovernmental	523,812
Accrued interest	2,248
Depreciable capital assets, net	<u>570,645</u>
<i>Total assets</i>	<u>2,799,393</u>
<b>Liabilities</b>	
Accounts payable	120
Accrued wages and benefits	467,881
Pension obligation payable	76,911
Intergovernmental payable	11,990
Accrued interest payable	3,378
Long-term liabilities:	
Due within one year	133,028
Due within more than one year	<u>391,888</u>
<i>Total liabilities</i>	<u>1,085,196</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	477,644
Restricted for:	
Capital projects	2,229
Other purposes	418,022
Unrestricted	<u>816,302</u>
<i>Total net assets</i>	<u>\$ 1,714,197</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>
<b>Governmental activities</b>	
Instruction:	
Regular	\$ 763,807
Special	977,200
Adult/continuing	26,177
Other	220
Support services:	
Pupil	903,385
Instructional staff	1,831,756
Board of education	30,133
Administration	212,667
Fiscal	199,922
Operations and maintenance	61,730
Pupil transportation	59,950
Central	36,317
Operation of non-instructional services	96,966
Intergovernmental pass-through	813,756
Interest and fiscal charges	6,129
	<hr/>
<i>Total governmental activities</i>	<u><u>\$ 6,020,115</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
\$ 323,156	\$ 2,518,898	\$ (440,651)
1,985,098		3,526,796
152		(26,177)
		(68)
		(903,385)
		(1,831,756)
		(30,133)
		(212,667)
		(199,922)
		(61,730)
		(59,950)
		(36,317)
		(96,966)
		(813,756)
		(6,129)
<u>\$ 2,308,406</u>	<u>\$ 2,518,898</u>	<u>(1,192,811)</u>

**General Revenues:**

Grants and entitlements not restricted to specific programs	947,501
Investment earnings	31,841
Miscellaneous	62,432
<i>Total general revenues</i>	<u>1,041,774</u>
<i>Change in net assets</i>	(151,037)
Net assets at beginning of year	<u>1,865,234</u>
<i>Net assets at end of year</i>	<u>\$ 1,714,197</u>

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>IDEA Part B Grants</u>
<b>Assets</b>		
Equity in pooled cash and cash equivalents	\$ 1,601,449	\$ 2,397
Receivables:		
Accounts	5	
Intergovernmental	75,182	19,652
Accrued interest	2,248	
Interfund receivable	86,407	
	<u>                    </u>	<u>                    </u>
<i>Total assets</i>	<u>\$ 1,765,291</u>	<u>\$ 22,049</u>
<b>Liabilities</b>		
Accounts payable	\$ 120	
Accrued wages and benefits	441,740	
Compensated absences payable	11,633	
Pension obligation payable	57,400	
Intergovernmental payable	9,532	\$ 470
Interfund payable		
Deferred revenue		19,652
	<u>                    </u>	<u>                    </u>
<i>Total liabilities</i>	<u>520,425</u>	<u>20,122</u>
<b>Fund Balances</b>		
Reserved for encumbrances	42,021	870
Unreserved, undesignated, reported in:		
General fund	1,202,845	
Special revenue funds		1,057
	<u>                    </u>	<u>                    </u>
<i>Total fund balances</i>	<u>1,244,866</u>	<u>1,927</u>
<i>Total liabilities and fund balances</i>	<u>\$ 1,765,291</u>	<u>\$ 22,049</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
\$ 384	\$ 98,453	\$ 1,702,683
179,826	249,152	5 523,812 2,248 86,407
<u>\$ 180,210</u>	<u>\$ 347,605</u>	<u>\$ 2,315,155</u>
		\$ 120
	\$ 26,141	467,881 11,633 60,858
\$ 169	3,458 1,819	11,990
56,505	29,902	86,407
30,032	123,533	173,217
<u>86,706</u>	<u>184,853</u>	<u>812,106</u>
89,776	107,260	239,927
3,728	55,492	1,202,845 60,277
<u>93,504</u>	<u>162,752</u>	<u>1,503,049</u>
<u>\$ 180,210</u>	<u>\$ 347,605</u>	<u>\$ 2,315,155</u>

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**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$ 1,503,049
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		570,645
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental revenue	<u>173,217</u>	
Total		173,217
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligation	93,001	
Compensated absences	420,282	
Pension benefit obligation	16,053	
Accrued interest payable	<u>3,378</u>	
Total		<u>(532,714)</u>
<i>Net assets of governmental activities</i>		<u><u>\$ 1,714,197</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>IDEA Part B Grants</u>
<b>Revenues</b>		
From local sources:		
Tuition	\$ 105,169	
Earnings on investments	31,841	
Contract services	1,980,410	
Other local revenues	285,183	
Intergovernmental - Intermediate	80,000	
Intergovernmental - State	807,969	
Intergovernmental - Federal	59,532	\$ 677,409
	<hr/>	<hr/>
<i>Total revenue</i>	3,350,104	677,409
	<hr/>	<hr/>
<b>Expenditures</b>		
Current:		
Instruction:		
Regular	141,080	
Special	875,454	
Adult/continuing		
Other	220	
Support services:		
Pupil	714,662	
Instructional staff	1,285,827	
Board of education	30,133	
Administration	146,292	
Fiscal	155,237	
Operations and maintenance	9,297	
Pupil transportation		
Central	2,990	
Operation of non-instructional services		
Intergovernmental pass through		781,632
Debt service:		
Principal retirement	10,849	
Interest and fiscal charges	2,248	
	<hr/>	<hr/>
<i>Total expenditures</i>	3,374,289	781,632
	<hr/>	<hr/>
<i>Net change in fund balances</i>	(24,185)	(104,223)
Fund balances at beginning of year (restated)	1,269,051	106,150
	<hr/>	<hr/>
<i>Fund balances at end of year</i>	\$ 1,244,866	\$ 1,927
	<hr/> <hr/>	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
		\$ 105,169
		31,841
		1,980,410
	\$ 76	285,259
		80,000
\$ 11,172	837,447	1,656,588
494,451	508,054	1,739,446
<u>505,623</u>	<u>1,345,577</u>	<u>5,878,713</u>
140,683	476,223	757,986
	67,129	942,583
	26,177	26,177
		220
60,080	109,182	883,924
122,555	324,515	1,732,897
		30,133
	56,771	203,063
6,835	30,287	192,359
7,500	26,927	43,724
13,835	46,115	59,950
25,655	7,672	36,317
27,785	69,181	96,966
	32,124	813,756
	27,467	38,316
	5,630	7,878
<u>404,928</u>	<u>1,305,400</u>	<u>5,866,249</u>
100,695	40,177	12,464
(7,191)	122,575	1,490,585
<u>\$ 93,504</u>	<u>\$ 162,752</u>	<u>\$ 1,503,049</u>

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

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, 2004

**Net change in fund balances - total governmental funds** \$ 12,464

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 capital outlays (\$19,968) are less than depreciation expense (\$125,496) in the current period. (105,528)

The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets. (23,022)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (9,635)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 38,316

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. The additional interest reported in the statement of activities is due to the accrued interest on the capital lease obligation. 1,749

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (65,381)

*Change in net assets of governmental activities* \$ (151,037)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
From local sources:				
Tuition	\$ 139,036	\$ 91,061	\$ 105,169	14,108
Earnings on investments	45,840	30,023	34,674	4,651
Contract services	2,557,174	1,674,808	1,934,276	259,468
Other local revenues	377,015	246,924	285,178	38,254
Intergovernmental - Intermediate	105,763	69,269	80,000	10,731
Intergovernmental - State	1,068,162	699,587	807,969	108,382
Intergovernmental - Federal	78,703	51,546	59,532	7,986
<i>Total revenue</i>	<u>4,371,693</u>	<u>2,863,218</u>	<u>3,306,798</u>	<u>443,580</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	177,271	183,800	140,320	43,480
Special	1,013,553	1,050,886	854,313	196,573
Other	220	220	220	-
Support services:				
Pupil	863,197	894,991	721,021	173,970
Instructional staff	1,582,929	1,641,234	1,284,795	356,439
Board of education	85,843	89,005	39,564	49,441
Administration	372,564	386,287	155,583	230,704
Fiscal	179,821	186,444	153,745	32,699
Operations and maintenance	96,573	100,130	26,723	73,407
Central	11,135	11,545	3,390	8,155
<i>Total expenditures</i>	<u>4,383,106</u>	<u>4,544,542</u>	<u>3,379,674</u>	<u>1,164,868</u>
Excess of expenditures over revenues	<u>(11,413)</u>	<u>(1,681,324)</u>	<u>(72,876)</u>	<u>1,608,448</u>
<b>Other financing sources (uses)</b>				
Advances in	102,228	66,954	66,954	-
Advances (out)	<u>(38,579)</u>	<u>(40,000)</u>	<u>(86,407)</u>	<u>(46,407)</u>
<i>Total other financing sources (uses)</i>	<u>63,649</u>	<u>26,954</u>	<u>(19,453)</u>	<u>(46,407)</u>
<i>Net change in fund balance</i>	52,236	(1,654,370)	(92,329)	1,562,041
Fund balance at beginning of year	1,605,754	1,605,754	1,605,754	-
<i>Prior year encumbrances appropriated</i>	<u>48,764</u>	<u>48,764</u>	<u>48,764</u>	<u>-</u>
<i>Fund balance at end of year</i>	<u>\$ 1,706,754</u>	<u>\$ 148</u>	<u>\$ 1,562,189</u>	<u>\$ 1,562,041</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
 IDEA PART B GRANTS FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental - Federal	\$ 747,035	\$ 768,904	\$ 807,629	\$ 38,725
<i>Total revenue</i>	<u>747,035</u>	<u>768,904</u>	<u>807,629</u>	<u>38,725</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Special	451,719	472,980	462,021	10,959
Support services:				
Pupil	254,344	266,316	260,812	5,504
Instructional staff	29,337	30,718	26,107	4,611
Administration	4,127	4,321	4,214	107
Fiscal	17,327	18,143	18,143	-
Pupil transportation	1,436	1,504	1,504	-
Operation of non-instructional services	10,257	10,740	10,740	-
<i>Total expenditures</i>	<u>768,547</u>	<u>804,722</u>	<u>783,541</u>	<u>21,181</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(21,512)</u>	<u>(35,818)</u>	<u>24,088</u>	<u>59,906</u>
<b>Other financing uses</b>				
Advances (out)	-	-	(44,085)	(44,085)
<i>Total other financing uses</i>	<u>-</u>	<u>-</u>	<u>(44,085)</u>	<u>(44,085)</u>
<i>Net change in fund balance</i>	(21,512)	(35,818)	(19,997)	15,821
Fund balance at beginning of year	14,465	14,465	14,465	-
Prior year encumbrances appropriated	7,059	7,059	7,059	-
<i>Fund balance at end of year</i>	<u>\$ 12</u>	<u>\$ (14,294)</u>	<u>\$ 1,527</u>	<u>\$ 15,821</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
 MISCELLANEOUS FEDERAL GRANTS FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Intergovernmental - State	\$ 13,918	\$ 16,849	\$ 11,172	\$ (5,677)
Intergovernmental - Federal	473,115	528,690	354,458	(174,232)
<i>Total revenue</i>	487,033	545,539	365,630	(179,909)
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	143,949	168,259	155,001	13,258
Special	43	50		50
Support services:				
Pupil	71,669	65,272	65,838	(566)
Instructional staff	182,453	190,800	171,244	19,556
Administration	222	-	-	-
Fiscal	9,167	8,122	6,938	1,184
Operations and maintenance	6,416	7,500	7,500	-
Pupil transportation	15,827	18,500	17,995	505
Central	22,895	26,762	26,731	31
Operation of non-instructional services	37,165	43,442	43,442	-
<i>Total expenditures</i>	489,806	528,707	494,689	34,018
<i>Excess of revenues over (under) expenditures</i>	(2,773)	16,832	(129,059)	(145,891)
<b>Other financing sources (uses)</b>				
Refund of prior year receipts	-	-	(90)	(90)
Advances in	-	-	56,505	56,505
Advances out	-	-	(19,521)	(19,521)
<i>Total other financing sources (uses)</i>	-	-	36,894	36,894
<i>Net change in fund balance</i>	(2,773)	16,832	(92,165)	(108,997)
Fund balance at beginning of year	(7,533)	(7,533)	(7,533)	-
Prior year encumbrances appropriated	10,306	10,306	10,306	-
<i>Fund balance at end of year</i>	\$ -	\$ 19,605	\$ (89,392)	\$ (108,997)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2004

	<u>Agency</u>
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 37,553
Receivables:	
Accounts	9,445
Intergovernmental	<u>3,214</u>
<i>Total assets</i>	<u>\$ 50,212</u>
<b>Liabilities</b>	
Due to other governments	<u>\$ 50,212</u>
<i>Total liabilities</i>	<u>\$ 50,212</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

#### 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, policy and procedures, and approves all financial activities. The ESC is staffed by 41 non-certificated employees and 48 certificated employees (including administrative) to provide services to approximately 6,780 students in 9 districts throughout the County.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

##### A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. For the ESC, this includes general and preschool operations.

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

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

#### JOINTLY GOVERNED ORGANIZATIONS

##### Northwest Ohio Area Computer Services Cooperative

The District 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.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent school district. 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 Pamela Barber, Treasurer, Findlay City Schools, at 227 South West Street, Findlay, Ohio 45840-3377.

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

#### **B. Fund Accounting**

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

#### GOVERNMENTAL FUNDS

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

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

IDEA Part B Grants Fund - A special revenue fund used to account for grant monies to assist states in providing an appropriate public education to all children with disabilities.



## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

Miscellaneous Federal Grants Fund - A special revenue fund used to account for various monies received through state agencies from the federal government or directly from the federal government.

Other governmental funds of the ESC are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) for grants and other resources whose use is restricted to a particular purpose.

#### 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 assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments. The ESC has no trust funds. 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.

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

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

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

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources)

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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 Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

#### **E. Budgets**

An educational service center is required by state statute, § 3317.11 Ohio Revised Code, to submit an annual budget of operating expenses to the State Governing Board for approval.

The ESC legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the ESC summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the state for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. Part (C) includes the adopted appropriation resolution of the ESC. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the ESC the amount from part (B) that is to be apportioned to their district.

The ESC is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from state resources.

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$37.00. This amount is provided from State Resources.

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

#### Appropriations

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund, function level of expenditures for the General Fund and at the fund level of expenditures for all other funds, which are the legal levels of budgetary control. Prior to the passage of the

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total function appropriations within the fund, or alter object appropriations within functions, must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the budgetary statement represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2004.

Unencumbered appropriations revert to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

#### **F. 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 2004, investments were limited to a U.S. government money market mutual fund, certificates of deposit, and federal agency securities. 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 deposit, 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 2004 amounted to \$31,841, which includes \$2,505 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 Treasurer's investment account at year-end is provided in Note 4.

#### **G. 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

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

reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the ESC increased its capitalization threshold from \$250 to \$1,000. The change in the capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see Note 7). 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.

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

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

**H. 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 Assets. As of June 30, 2004, the ESC had \$86,407 of interfund receivables in the general fund and payable from various special revenue funds (see Note 5).

**I. Compensated Absences**

Compensated absences of the ESC consist of vacation leave and severance 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. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, 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 severance 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.

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, 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.

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.

#### **J. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities, that once incurred are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

#### **K. Fund Balance Reserves**

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

#### **L. Net Assets**

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

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

#### **M. 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.

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

#### **N. 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.

#### **O. 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 2004.

### **3. ACCOUNTABILITY AND COMPLIANCE**

#### **A. Changes in Accounting Principles and Restatement of Fund Balance**

For fiscal year 2004, the ESC has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

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

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

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the ESC not being able to present budgetary comparison for the general fund and major special revenue funds.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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The government-wide financial statements show the ESC's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the implementation of GASB Interpretation No. 6 and the conversion to the accrual basis of accounting.

During fiscal year 2004, the ESC increased its capitalization threshold for capital assets from \$250 to \$1,000. See note 7 for the effects on previously reported capital assets.

Governmental Activities - Restatement of Fund Balance - It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The implementation of GASB Interpretation No. 6 had the following effect on the ESC's governmental fund balances as previously reported:

	<u>General</u>	<u>Grants</u>	<u>Federal Grants</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 1,252,082	\$ 106,150	\$ (7,191)	\$ 122,484	\$ 1,473,525
Implementation of GASB Interpretation No. 6	<u>16,969</u>	<u>-</u>	<u>-</u>	<u>91</u>	<u>17,060</u>
Restated fund balance, June 30, 2003	<u>\$ 1,269,051</u>	<u>\$ 106,150</u>	<u>\$ (7,191)</u>	<u>\$ 122,575</u>	<u>\$ 1,490,585</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 1,490,585
GASB 34 adjustments:	
Long-term (deferred) assets	182,852
Capital assets	699,195
Accrued interest payable	(5,127)
Pension obligation	(6,406)
Long-term liabilities	<u>(495,865)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 1,865,234</u>

**B. Deficit Fund Balances**

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

	<u>Deficit</u>
Nonmajor Funds	
Management Information System	\$ 4
Entry Year Programs	2
IDEA Preschool-Handicapped	25

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when



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### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

#### 4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the ESC into three categories.

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

Inactive deposits are public deposits 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 accounts, including passbook accounts.

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

Interim monies 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 or 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 2 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;

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### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year-end, the carrying amount of the ESC's deposits was \$1,240,372 and the bank balance was \$1,507,779. Both of these amounts include \$929,652 in non-negotiable certificates of deposit. Of the bank balance:

1. \$700,000 was covered by federal depository insurance; and
2. \$807,779 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The ESC's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or

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agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name. U.S. Government money market mutual funds are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Risk Category</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal agency securities	Category 2	\$ 433,157	\$ 433,157
U.S. Government money market mutual fund	Not Categorized	<u>66,707</u>	<u>66,707</u>
Total investments		<u>\$ 499,864</u>	<u>\$ 499,864</u>

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

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,740,236	\$ -
Investments of the cash management pool:		
Federal agency securities	(433,157)	433,157
U.S. Government money market mutual fund	<u>(66,707)</u>	<u>66,707</u>
GASB Statement No. 3	<u>\$ 1,240,372</u>	<u>\$ 499,864</u>

**5. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Miscellaneous Federal Grants Fund	\$ 56,505
General	Nonmajor governmental funds	<u>29,902</u>
		<u>\$ 86,407</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 government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**6. RECEIVABLES**

Receivables at June 30, 2004 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 Assets follows:

Governmental Activities:	
Accounts	\$ 5
Accrued interest	2,248
Intergovernmental	<u>523,812</u>
Total	<u><u>\$ 526,065</u></u>

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

**7. CAPITAL ASSETS**

A. The capital asset balances of the governmental activities have been restated due to a change in the ESC's capital asset policy (see Note 2.G. for detail) and to report accumulated depreciation in accordance with GASB Statement No. 34.

	Balance 6/30/03	Adjustments	Restated Balance 6/30/03
<b>Governmental Activities</b>			
Capital assets, being depreciated:			
Buildings and improvements	\$ 338,690	\$ -	\$ 338,690
Furniture and equipment	1,108,295	(142,836)	965,459
Vehicles	15,401	(900)	14,501
<i>Total capital assets, being depreciated</i>	<u>1,462,386</u>	<u>(143,736)</u>	<u>1,318,650</u>
Less: accumulated depreciation:			
Buildings and improvements	-	(51,717)	(51,717)
Furniture and equipment	-	(560,462)	(560,462)
Vehicles	-	(7,276)	(7,276)
<i>Total accumulated depreciation</i>	<u>-</u>	<u>(619,455)</u>	<u>(619,455)</u>
<i>Governmental activities capital assets, net</i>	<u><u>\$ 1,462,386</u></u>	<u><u>\$ (763,191)</u></u>	<u><u>\$ 699,195</u></u>

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
<b>Governmental Activities</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 338,690	\$ -	\$ -	\$ 338,690
Furniture and equipment	965,459	19,968	(130,808)	854,619
Vehicles	14,501	-	-	14,501
<i>Total capital assets, being depreciated</i>	<u>1,318,650</u>	<u>19,968</u>	<u>(130,808)</u>	<u>1,207,810</u>
Less: accumulated depreciation				
Buildings and improvements	(51,717)	(16,935)	-	(68,652)
Furniture and equipment	(560,462)	(107,111)	107,786	(559,787)
Vehicles	(7,276)	(1,450)	-	(8,726)
<i>Total accumulated depreciation</i>	<u>(619,455)</u>	<u>(125,496)</u>	<u>107,786</u>	<u>(637,165)</u>
Governmental activities capital assets, net	<u>\$ 699,195</u>	<u>\$ (105,528)</u>	<u>\$ (23,022)</u>	<u>\$ 570,645</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 5,507
Special		25,686
Support Services:		
Pupil		7,990
Instructional staff		62,944
Administration		11,314
Fiscal		1,716
Operations and maintenance		10,339
<i>Total depreciation expense</i>		<u>\$ 125,496</u>

**8. CAPITAL LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the ESC entered into capital lease agreements for copiers, a postage machine, and a modular classroom.

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. 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. General capital assets acquired by lease have been capitalized in the amount of \$194,064, which is equal to the present value of the future minimum payments as of the date of their inception. A corresponding liability was recorded and is presented as a component of long-term liabilities on the statement of net assets. Principal payments in the 2004 fiscal year totaled \$38,316. This amount is reflected as debt service principal retirement in the general fund and other governmental funds on the fund financial statements.

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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, 2004:

<u>Year Ending June 30</u>	<u>Equipment</u>
2005	\$ 46,194
2006	41,801
2007	<u>12,575</u>
Total future minimum lease payments	100,570
Less: amount representing interest	<u>(7,569)</u>
Present value of future minimum lease payment	<u><u>\$ 93,001</u></u>

The ESC does not have capitalized lease obligations after fiscal year 2007.

**9. LONG-TERM OBLIGATIONS**

The balance of the ESC's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability has been restated by \$17,060 from \$347,488 to \$364,548 due to the implementation of GASB Interpretation No. 6. In addition, the pension obligations of \$6,406 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end and are reported separately on the statement of net assets. The changes in the ESC's governmental activities long-term obligations during the fiscal year were as follows:

	Restated Balance 06/30/03	Increase	Decrease	Balance Outstanding 06/30/04	Amounts Due in One Year
<b>Governmental Activities:</b>					
Compensated absences payable	\$ 364,548	\$ 111,949	\$ (44,582)	\$ 431,915	\$ 91,954
Capital lease obligations	<u>131,317</u>	<u>-</u>	<u>(38,316)</u>	<u>93,001</u>	<u>41,074</u>
<i>Total long-term obligations, governmental activities</i>	<u><u>\$ 495,865</u></u>	<u><u>\$ 111,949</u></u>	<u><u>\$ (82,898)</u></u>	<u><u>\$ 524,916</u></u>	<u><u>\$ 133,028</u></u>

Compensated absences will ultimately be paid from the fund from which the employee is paid. See Note 8 regarding the capital lease obligations.

**10. RISK MANAGEMENT**

**A. Comprehensive**

The ESC is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the ESC contracted with the Ohio Schools Risk Sharing Authority for the following insurance coverages:

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General Liability:	
Per occurrence	\$ 3,000,000
Per year	5,000,000
Fire Legal Liability	500,000
Medical Payments:	
Per occurrence	1,000
Per year	5,000
Educators' Legal Liability:	
Errors or Omissions Cover	3,000,000
Automobile Liability:	
Owned/leased Vehicles	3,000,000
Hired and Non-Owned Liability	Included
Medical Payments:	
Per occurrence	1,000
Per year	5,000
Uninsured Motorist	50,000
Automobile Physical Damage:	100,000
Property - Catastrophic Coverage:	416,750
(Includes Inland Marine, Miscellaneous Equipment, and Automobile Physical Damage)	
Crime Cover:	50,000
(Includes Employee Dishonesty, Faithful performance of Duty, Forgery or Alteration, Computer Fraud, Theft, Disappearance, and Destruction)	

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

**B. Employee Group Health, Dental, and Prescription Drugs**

The ESC offers group medical, dental, and prescription drug insurances to all employees through Medical Mutual of Ohio. Depending upon the plan chosen, the employees share a portion of the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Regardless of the plan utilized by the employees, all group benefit plans are traditionally funded, and the ESC does not retain any risk of loss.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the ESC.

**C. Workers' Compensation**

For fiscal year 2004, the ESC participated in the Ohio School Boards Association 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

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

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 Gates, McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

#### **11. DEFINED BENEFIT PENSION PLANS**

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

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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 of 14 percent for 2004, 9.09 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$62,882, \$72,532, and \$37,176, respectively; 100 percent has been contributed for each of these fiscal years.

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

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by



## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$297,836, \$294,838, and \$196,167, respectively; 100 percent has been contributed for each of these fiscal years. Contributions to the DC and Combined Plans for fiscal year 2004 were \$29 made by the ESC and \$150 made by the plan members.

#### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

#### **12. POSTEMPLOYMENT BENEFITS**

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall

## PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004 (Continued)

be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$22,910 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$50,018 during the 2004 fiscal year.

### **13. BUDGETARY BASIS OF ACCOUNTING**

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

The Statement 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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		
	General Fund	IDEA Part B Grants	Miscellaneous Federal Grants
Budget basis	\$ (92,329)	\$ (19,997)	\$ (92,165)
Net adjustment for revenue accruals	43,306	(130,220)	139,993
Net adjustment for expenditure accruals	(38,956)	1,039	(15)
Net adjustment for other sources/uses	19,453	44,085	(36,894)
Adjustment for encumbrances	44,341	870	89,776
GAAP basis	<u>\$ (24,185)</u>	<u>\$ (104,223)</u>	<u>\$ 100,695</u>

**14. 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.

**C. State School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The ESC is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDING JUNE 30, 2004**

<b>FEDERAL GRANTOR Pass-through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity's Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>UNITED STATES DEPARTMENT OF JUSTICE</b>				
<b><i>Pass Through Ohio Department of Youth Services</i></b>				
Juvenile Justice and Delinquency Prevention Grant	16.540	2003-JJ-DP-0061 2004-JJ-DP-0061	\$ 24,285 6,575	\$ 30,161 4,950
Total Juvenile Justice and Delinquency Prevention Grant			<u>30,860</u>	<u>35,111</u>
<b><i>Direct Assistance</i></b>				
Drug Free Communities Support Program Grants	16.729	2002JNFX0051 2003JNFX0051 2004JNFX0051	254 34,243 38,708	203 31,367 45,456
Total Drug Free Communities Support Program Grant			<u>73,205</u>	<u>77,026</u>
Total Department of Justice			<u><b>104,065</b></u>	<u><b>112,137</b></u>
<b>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</b>				
<b><i>Passed Through Ohio Department of Public Safety</i></b>				
State and Community Highway Safety	20.600	1441 1720.2	13,046 25,314	20,388 15,593
Total State and Community Highway Safety			<u><b>38,360</b></u>	<u><b>35,981</b></u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<b><i>Direct Assistance</i></b>				
Twenty-first Century Community Learning Centers	84.287	990148	251,144	297,118
<b><i>Passed Through Ohio Department of Education</i></b>				
Adult Education State Grant Program	84.002	049304-AB-S1-02 049304-AB-S1-04	5,420 9,830	7,167 15,344
Total Adult Education State Grant Program			<u>15,250</u>	<u>22,511</u>
Migrant Education - State Grant Program	84.011	MGS1-03 MGS1-04	62,085 58,256	80,636 24,674
Total Migrant Education - State Grant Program			<u>120,341</u>	<u>105,310</u>
Special Education Cluster				
Special Education - Grants to States	84.027	049304-6B-SF-03P 049304-6B-SF-04P 049304-6B-II-03P 049304-6B-SA-03P 049304-6B-SD-03P 049304-6B-SD-04P	98,936 601,323 31,111 25,577 33,955 16,728	77,080 601,323 8,882 33,349 47,707 14,331
Total Special Education - Grants to States			<u>807,630</u>	<u>782,672</u>

(Continued)

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDING JUNE 30, 2004  
(Continued)

<b>FEDERAL GRANTOR Pass-through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity's Number</b>	<b>Receipts</b>	<b>Disbursements</b>
Special Education - Preschool Grant	84.173	049304-PGS1-04P	23,099	23,099
		049304-PG-D7-03P	9,000	9,000
Total Special Education - Preschool Grants			<u>32,099</u>	<u>32,099</u>
Total Special Education Cluster			839,729	814,771
Safe and Drug Free Schools and Communities - National Grants	84.184	049304-T4S1-03	6,897	6,788
		049304-T4S1-03	4,275	4,000
Total Safe and Drug Free Schools			<u>11,172</u>	<u>10,788</u>
Even Start Grant	84.213	049304-EVS1-04	173,731	188,547
Total Department of Education			<u>1,160,223</u>	<u>1,141,927</u>
<b><i>Passed Through Ohio Department of Education</i></b>				
Learn and Serve America Grant - School and Community Based Programs	94.004	SVS2-03	9,210	10,165
		SVS2-04	-	2,517
Total Learn and Serve America Grant - School and Community Based Programs			<u>9,210</u>	<u>12,682</u>
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<b><i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i></b>				
Medical Assistance Program (CAFS)	93.778	6900134	59,532	59,532
<b><i>Passed Through Putnam County Jobs and Family Services</i></b>				
Workforce Investment Act Youth Activities	17.259		9,801	-
			45,943	48,176
Total Workforce Investment Act Youth Activities			<u>55,744</u>	<u>48,176</u>
<b><i>Passed Through Putnam County Family Children First Council</i></b>				
Promoting Safe and Stable Families	93.556		-	257
Total Department of Health and Human Services			<u>115,276</u>	<u>107,965</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u><b>\$ 1,678,278</b></u>	<u><b>\$ 1,707,810</b></u>

SEE ACCOMPANYING NOTES TO THE SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require the Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Educational Service Center  
Putnam County  
336 E. Main Street, P.O. Box 190  
Ottawa, Ohio 45875-0190

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center (the Center) as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 22, 2005, in which we disclosed the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the Center's management in a separate letter dated February 22, 2005.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

This report is intended for the information and use of the audit committee, management, Governing Board, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

February 22, 2005



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Educational Service Center  
Putnam County  
336 East Main Street, P.O. Box 190  
Ottawa, Ohio 45875-0190

To the Governing Board:

#### Compliance

We have audited the compliance of the Putnam County Educational Service Center (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Governing Board, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

February 22, 2005

**PUTNAM COUNTY EDUCATIONAL SERVICE CENTER**

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.





**Auditor of State  
Betty Montgomery**

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

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800-282-0370

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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  
MARCH 22, 2005**