

Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

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 Educational Service Center, Putnam County, Ohio (the ESC), as of and for the year ended June 30, 2010, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Education Service Center, Putnam County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements taken as a whole. The schedules of revenues, expenditures and changes in fund balance – budget and actual provide additional information and are not a required part of the basic financial statements. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedules of revenues, expenditures and changes in fund balance – budget and actual and the federal awards receipts and expenditures schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 11, 2011

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

The management's discussion and analysis of the Putnam County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities decreased \$506,534 which represents a 10.69% decrease from 2009.
- General revenues accounted for \$846,248 in revenue or 14.97% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,805,859 or 85.03% of total revenues of \$5,652,107.
- The ESC had \$6,158,641 in expenses related to governmental activities; \$4,805,859 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 \$846,248 were not adequate to provide for these programs.
- The ESC's major governmental funds are the General fund, the IDEA Part B Grant fund, the Drug Free Schools Grant fund and the Miscellaneous Federal Grants Fund. The General fund had \$3,199,462 in revenues and other financing sources and \$3,142,202 in expenditures. During fiscal year 2010, the General fund's fund balance increased \$57,260 from \$732,891 to \$790,151.
- The IDEA Part B Grant fund had \$906,565 in revenues and \$951,569 in expenditures. During fiscal year 2010, the IDEA Part B Grant fund's fund balance decreased \$45,004 from \$15,024 to a deficit balance of \$29,980.
- The Drug Free Schools Grant fund had \$801,000 in revenues and \$853,699 in expenditures. During fiscal year 2010, the Drug Free Schools Grant fund's fund balance decreased \$52,699 from a balance of \$13,430 to a deficit balance of \$39,269.
- The Miscellaneous Federal Grants fund had \$669,292 in revenues and \$741,591 in expenditures. During fiscal year 2010, the Miscellaneous Federal Grants fund's fund balance decreased \$72,299 from \$35,179 to a deficit balance of \$37,120.

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 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.

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PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the General fund, the IDEA Part B Grant fund, the Drug Free Schools Grant fund and the Miscellaneous Federal Grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

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 2010?" 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, the IDEA Part B Grant fund, the Drug Free Schools Grant fund and the 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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

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.

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. The table below provides a summary of the ESC's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 2,120,835	\$ 2,583,641
Capital assets	<u>3,957,749</u>	<u>3,982,044</u>
Total assets	<u>6,078,584</u>	<u>6,565,685</u>
<u>Liabilities</u>		
Current liabilities	657,398	593,921
Long-term liabilities	<u>1,188,583</u>	<u>1,232,627</u>
Total liabilities	<u>1,845,981</u>	<u>1,826,548</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,264,101	3,283,855
Restricted	642,476	1,243,123
Unrestricted	<u>326,026</u>	<u>212,159</u>
Total net assets	<u>\$ 4,232,603</u>	<u>\$ 4,739,137</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the ESC's assets exceeded liabilities by \$4,232,603.

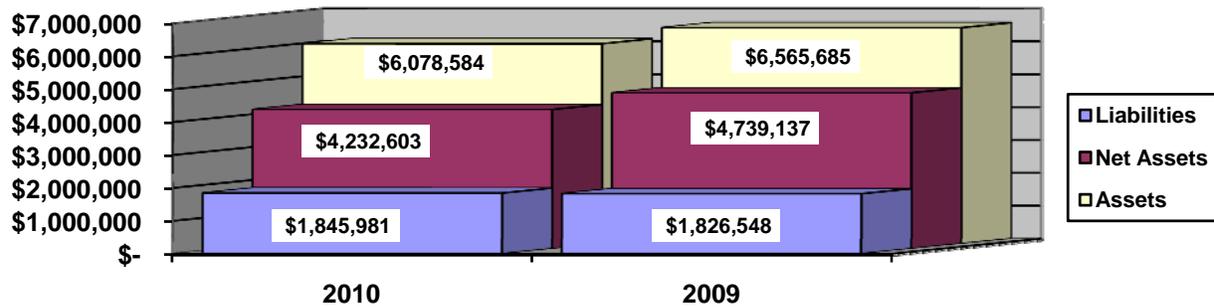
At year-end, capital assets represented 65.11% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$3,264,101. These capital assets are used to provide services 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.

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A portion of the ESC's net assets, \$642,476, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$326,026 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 2010 and 2009.

	Change in Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,303,641	\$ 2,247,847
Operating grants and contributions	2,502,218	4,037,027
General revenues:		
Grants and entitlements	812,942	857,174
Investment earnings	23,116	25,074
Other	10,190	16,002
Total revenues	<u>5,652,107</u>	<u>7,183,124</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2010</u>	<u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 396,884	\$ 384,622
Special	914,721	1,371,493
Adult/continuing	23,538	28,698
Other	4,248	608
Support services:		
Pupil	974,320	761,057
Instructional staff	1,928,506	2,094,445
Board of education	25,877	27,149
Administration	310,272	304,479
Fiscal	247,213	240,989
Business	10,192	4,385
Operations and maintenance	166,849	209,893
Pupil transportation	95,465	67,152
Central	33,304	47,765
Operation of non-instructional services:		
Other non-instructional services	44,246	35,500
Intergovernmental pass-through	951,569	903,585
Interest and fiscal charges	<u>31,437</u>	<u>32,008</u>
Total expenses	<u>6,158,641</u>	<u>6,513,828</u>
Change in net assets	(506,534)	669,296
Net assets at beginning of year	<u>4,739,137</u>	<u>4,069,841</u>
Net assets at end of year	<u>\$ 4,232,603</u>	<u>\$ 4,739,137</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$506,534, due to a reduction in intergovernmental-state revenue in 2010. Total governmental expenses of \$6,158,641 were offset by program revenues of \$4,805,859 and general revenues of \$846,248. Program revenues supported 78.03% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from operating grants and contributions. These revenue sources represent 44.27% of total governmental revenue.

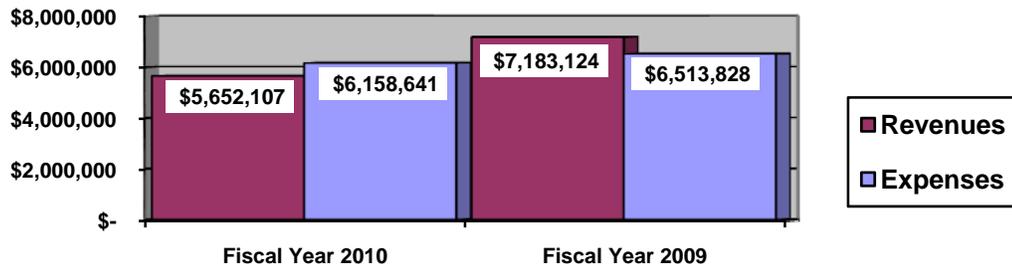
The largest expense of the ESC is for support services. Support services expenses totaled \$3,791,998 or 61.57% of total governmental expenses for fiscal year 2010.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2010 and 2009.

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.

	Governmental Activities			
	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 396,884	\$ 68,848	\$ 384,622	\$ 8,673
Special	914,721	(1,406,036)	1,371,493	(1,578,591)
Adult/continuing	23,538	(1,742)	28,698	28,698
Other	4,248	4,248	608	(18,348)
Support services:				
Pupil	974,320	789,945	761,057	235,604
Instructional staff	1,928,506	1,241,969	2,094,445	421,488
Board of education	25,877	25,877	27,149	27,149
Administration	310,272	272,568	304,479	(118,072)
Fiscal	247,213	195,549	240,989	196,435
Business	10,192	7,796	4,385	(16,444)
Operations and maintenance	166,849	88,181	209,893	117,552
Pupil transportation	95,465	7,893	67,152	(4,359)
Central	33,304	18,540	47,765	6,508
Operation of non-instructional services:				
Other non-instructional services	44,246	(5,240)	35,500	(12,932)
Inergovernmental pass-through	951,569	12,949	903,585	903,585
Interest and fiscal charges	31,437	31,437	32,008	32,008
Total expenses	<u>\$ 6,158,641</u>	<u>\$ 1,352,782</u>	<u>\$ 6,513,828</u>	<u>\$ 228,954</u>

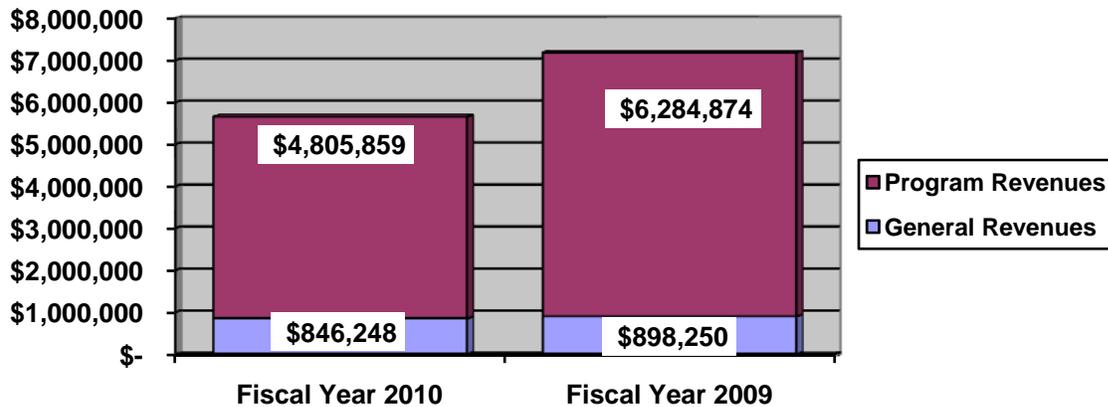
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PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

The dependence upon other general revenues for governmental activities is apparent, general revenue support is 21.97%. The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

The graph below presents the ESC's governmental activities revenue for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$723,370, which is lower than last year's total of \$826,958. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (Deficit) <u>June 30, 2010</u>	Fund Balance <u>June 30, 2009</u>	Increase (Decrease)	Percentage Change
General	\$ 790,151	\$ 732,891	\$ 57,260	7.81 %
IDEA Part B Grant	(29,980)	15,024	(45,004)	(299.55) %
Drug Free Schools	(39,269)	13,430	(52,699)	(392.40) %
Miscellaneous Federal Grants	(37,120)	35,179	(72,299)	(205.52) %
Other Governmental	<u>39,588</u>	<u>30,434</u>	<u>9,154</u>	30.08 %
Total	<u>\$ 723,370</u>	<u>\$ 826,958</u>	<u>\$ (103,588)</u>	(12.53) %

General Fund

The ESC's general fund balance increased by \$57,260. The increase in fund balance can be attributed to several items related to revenues increasing faster than increased expenditures. Revenues exceed expenditures for fiscal year 2010 by \$10,763.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

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

Tuition	\$ 2,058,235	\$ 1,983,407	\$ 74,828	3.77 %
Contract Services	157,840	187,403	(29,563)	(15.78) %
Earnings on investments	26,192	26,275	(83)	(0.32) %
Intergovernmental	812,942	857,174	(44,232)	(5.16) %
Other revenues	<u>97,756</u>	<u>93,032</u>	<u>4,724</u>	5.08 %
 Total	 <u>\$ 3,152,965</u>	 <u>\$ 3,147,291</u>	 <u>\$ 5,674</u>	 0.18 %
 <u>Expenditures</u>				
Instruction	\$ 797,016	\$ 920,308	\$ (123,292)	(13.40) %
Support services	2,236,944	2,013,521	223,423	11.10 %
Capital outlay	32,147		32,147	100.00 %
Debt service	<u>76,095</u>	<u>78,289</u>	<u>(2,194)</u>	(2.80) %
 Total	 <u>\$ 3,142,202</u>	 <u>\$ 3,012,118</u>	 <u>\$ 130,084</u>	 4.32 %

IDEA Part B Grant Fund

The IDEA Part B Grant fund had \$906,565 in revenues and \$951,569 in expenditures. During fiscal year 2010, the IDEA Part B Grant fund's fund balance decreased \$45,004 from \$15,024 to a deficit balance of \$29,980. This is primarily due to the District waiting on federal reimbursements of expenditures from the granting agency.

Drug Free Schools Grant Fund

The Drug Free Schools Grant fund had \$801,000 in revenues and \$853,699 in expenditures. During fiscal year 2010, the Drug Free Schools Grant fund's fund balance decreased \$52,699 from a balance of \$13,430 to a deficit balance of \$39,269. This is primarily due to the District waiting on federal reimbursements of expenditures from the granting agency.

Miscellaneous Federal Grants Fund

The Miscellaneous Federal Grants fund had \$669,292 in revenues and \$741,591 in expenditures. During fiscal year 2010, the Miscellaneous Federal Grants fund's fund balance decreased \$72,299 from \$35,179 to a deficit balance of \$37,120. This is primarily due to the District waiting on federal reimbursements of expenditures from the granting agency.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the ESC had \$3,957,749 invested in land, buildings and improvements, furniture and equipment, and vehicles, net of accumulated depreciation. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

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PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

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

	Governmental Activities	
	2010	2009
Land	\$ 156,000	\$ 156,000
Building and improvements	3,659,523	3,713,730
Furniture and equipment	135,590	103,469
Vehicles	6,636	8,845
Total	\$ 3,957,749	\$ 3,982,044

The overall decrease in capital assets is due to depreciation expense of \$105,195 and disposals of \$2,799 (net of accumulated depreciations) exceeding capital outlays of \$83,699 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, 2010, the ESC had \$693,648 in capital lease obligations outstanding. Of this total, \$30,357 is due within one year and \$663,291 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2010	2009
Capital lease obligations	\$ 693,648	\$ 698,189

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

Current Financial Related Activities

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

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

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PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
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Another challenge facing the ESC is the maintenance and renting of a new facility that houses our offices, as well as, a higher education facility with six flexible classrooms. The cost of the facility is around \$3.3 million, with our investment being \$1 million over a 25 year lease purchase agreement with the Village of Ottawa. A grant from the Economic Development Administration and the Village will be contributing the remaining portion of the funding.

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

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

Contacting the ESC's Financial Management

This financial report is designed to provide our 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, 124 Putnam Parkway, Ottawa, Ohio 45875-8657.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,376,423
Receivables:	
Accounts	3,074
Intergovernmental	738,890
Accrued interest	2,448
Capital assets:	
Land	156,000
Depreciable capital assets, net	3,801,749
 Total assets	 \$6,078,584
 Liabilities:	
Accrued wages and benefits	\$552,763
Pension obligation payable	86,045
Intergovernmental payable	16,321
Accrued interest payable	2,269
Long-term liabilities:	
Due within one year	184,294
Due within more than one year	1,004,289
 Total liabilities	 1,845,981
 Net Assets:	
Invested in capital assets, net	
of related debt	3,264,101
Restricted for:	
Locally funded programs	5,179
Federally funded programs	637,297
Unrestricted	326,026
 Total net assets	 \$4,232,603

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$396,884	\$41,346	\$286,690	(\$68,848)
Special	914,721	2,144,899	175,858	1,406,036
Adult/continuing	23,538		25,280	1,742
Other	4,248			(4,248)
Support services:				
Pupil	974,320		184,375	(789,945)
Instructional staff	1,928,506		686,537	(1,241,969)
Board of education	25,877			(25,877)
Administration	310,272		37,704	(272,568)
Fiscal	247,213	41,341	10,323	(195,549)
Business	10,192		2,396	(7,796)
Operations and maintenance	166,849	76,055	2,613	(88,181)
Pupil transportation	95,465		87,572	(7,893)
Central	33,304		14,764	(18,540)
Operation of non-instructional services	44,246		49,486	5,240
Intergovernmental pass-through	951,569		938,620	(12,949)
Interest and fiscal charges	31,437			(31,437)
Total governmental activities	\$6,158,641	\$2,303,641	\$2,502,218	(1,352,782)
 General Revenues:				
				812,942
				23,116
				10,190
				846,248
				(506,534)
				4,739,137
				\$4,232,603

See accompanying notes to the basic financial statements

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General</u>	<u>IDEA Part B Grants</u>	<u>Drug Free School Grants</u>	<u>Miscellaneous Federal Grants</u>
Assets:				
Equity in pooled cash and cash equivalents	\$1,347,830			
Receivables:				
Accounts	3,074			
Intergovernmental		\$32,055	\$288,156	\$294,291
Accrued interest	2,448			
Interfund receivable	80,441			
Total assets	<u>\$1,433,793</u>	<u>\$32,055</u>	<u>\$288,156</u>	<u>\$294,291</u>
Liabilities:				
Accrued wages and benefits	\$523,234	\$2,501	\$11,323	\$10,886
Pension obligation payable	80,960	832	1,434	1,679
Intergovernmental payable	11,837	2,063	815	868
Interfund payable		24,584	25,697	26,599
Compensated absences payable	25,462			
Deferred revenue	2,149	32,055	288,156	291,379
Total liabilities	<u>643,642</u>	<u>62,035</u>	<u>327,425</u>	<u>331,411</u>
Fund Balances:				
Reserved for encumbrances	27,922		29,121	178,894
Unreserved, undesignated (deficit), reported in:				
General fund	762,229			
Special revenue funds		(29,980)	(68,390)	(216,014)
Total fund balances	<u>790,151</u>	<u>(29,980)</u>	<u>(39,269)</u>	<u>(37,120)</u>
Total liabilities and fund balances	<u>\$1,433,793</u>	<u>\$32,055</u>	<u>\$288,156</u>	<u>\$294,291</u>

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$28,593	\$1,376,423
	3,074
124,388	738,890
	2,448
	80,441
<u>\$152,981</u>	<u>\$2,201,276</u>
\$4,819	\$552,763
1,140	86,045
738	16,321
3,561	80,441
	25,462
<u>103,135</u>	<u>716,874</u>
<u>113,393</u>	<u>1,477,906</u>
52,394	288,331
	762,229
<u>(12,806)</u>	<u>(327,190)</u>
<u>39,588</u>	<u>723,370</u>
<u>\$152,981</u>	<u>\$2,201,276</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

Total governmental fund balances \$723,370

*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. 3,957,749

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds.
Intergovernmental revenue 716,874

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds.

Capital lease obligation	\$693,648	
Compensated absences	469,473	
Accrued interest payable	2,269	

Total (1,165,390)

Net assets of governmental activities \$4,232,603

See accompanying notes to the basic financial statements

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General	IDEA Part B Grants	Drug Free School Grants
Revenues:			
From local sources:			
Tuition	\$2,058,235		
Earnings on investments	26,192		
Extracurricular	2,255		
Rental Income	76,055		
Contributions and donations	9,256		
Contract Services	157,840		
Other local revenues	10,190		
Intergovernmental - Intermediate	48,000		
Intergovernmental - State	764,942		
Intergovernmental - Federal		\$906,565	\$801,000
Total revenues	3,152,965	906,565	801,000
Expenditures:			
Current:			
Instruction:			
Regular	88,856		64,096
Special	703,912		
Adult/continuing			
Other	4,248		
Support services:			
Pupil	701,179		156,750
Instructional staff	906,338		503,548
Board of education	25,877		
Administration	214,652		83,144
Fiscal	232,370		8,747
Business			10,192
Operations and maintenance	148,149		
Pupil transportation	5,176		6,752
Central	3,203		20,470
Operation of non-instructional services			
Other non-instructional services			
Capital Outlay	32,147		
Intergovernmental pass-through		951,569	
Debt service:			
Principal retirement	45,961		
Interest and fiscal charges	30,134		
Total expenditures	3,142,202	951,569	853,699
Excess of revenues over (under)			
expenditures.	10,763	(45,004)	(52,699)
Other financing sources:			
Capital lease transaction	46,497		
Net change in fund balances	57,260	(45,004)	(52,699)
Fund balances at beginning of year	732,891	15,024	13,430
Fund balances at end of year	\$790,151	(\$29,980)	(\$39,269)

See accompanying notes to the basic financial statements

Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
		\$2,058,235
		26,192
		2,255
		76,055
		9,256
		157,840
		10,190
	\$4,204	52,204
	241,557	1,006,499
\$669,292	324,823	2,701,680
<u>669,292</u>	<u>570,584</u>	<u>6,100,406</u>
191,245	49,750	393,947
34,123	152,643	890,678
	23,538	23,538
		4,248
82,999	68,262	1,009,190
336,112	191,621	1,937,619
		25,877
11,567	5,105	314,468
300	8,820	250,237
		10,192
	3,000	151,149
42,061	41,476	95,465
4,095	5,536	33,304
34,803	9,443	44,246
		32,147
		951,569
3,346	1,731	51,038
940	505	31,579
<u>741,591</u>	<u>561,430</u>	<u>6,250,491</u>
<u>(72,299)</u>	<u>9,154</u>	<u>(150,085)</u>
		<u>46,497</u>
<u>(72,299)</u>	<u>9,154</u>	<u>(103,588)</u>
<u>35,179</u>	<u>30,434</u>	<u>826,958</u>
<u>(\$37,120)</u>	<u>\$39,588</u>	<u>\$723,370</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds (\$103,588)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$105,195) exceeded capital outlays \$83,699 in the current period. (21,496)

The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets. (2,799)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (448,299)

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. 51,038

Proceeds of capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (46,497)

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. 142

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. 64,965

Change in net assets of governmental activities (\$506,534)

See accompanying notes to the basic financial statements

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$114,059
	<u><u> </u></u>
Liabilities:	
Accrued wages and benefits	\$3,456
Pension obligation payable	810
Intergovernmental payable	264
Due to other governments	109,529
	<u> </u>
Total liabilities	<u><u>\$114,059</u></u>

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Governing Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policies and procedures, and approves all financial activities. The ESC is staffed by 45 certified employees (including administrative) and 44 classified employees to provide services to approximately 6,196 students in 9 school districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC 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", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations 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).

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The ESC is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert counties, and the cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts.

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 Michael Barnhart, Treasurer, Findlay City Schools, at 1219 West Main Cross, Suite 101, Findlay, Ohio, 45840.

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

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:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

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.

Drug Free School Grant Fund - A special revenue fund used to account for grant monies to offer a disciplined environment conducive to learning, by preventing violence in and around schools and strengthen programs that prevent the illegal use of alcohol, tobacco, and drugs, involve parents, and coordinated with Federal, State, and community efforts and resources.

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 which are not classified elsewhere.

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) 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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

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

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

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.

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

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

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

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

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

E. Cash and Investments

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

During fiscal year 2010, investments were limited to certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposits, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

general fund during fiscal year 2010 amounted to \$26,192, which includes \$3,604 assigned from other funds.

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

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

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2010, the ESC maintained its capitalization threshold at \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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

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

G. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net assets. As of June 30, 2010, the ESC had \$80,441 of interfund receivables in the general fund and payable from major and nonmajor governmental funds (See Note 5).

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

H. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 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.

I. Accrued Liabilities and Long-Term Obligations

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

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

J. 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.

K. 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Estimates

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

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the ESC has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the ESC.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the ESC.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficit</u>
IDEA Part-B grants	\$ 29,980
Drug-free schools grant	39,269
Miscellaneous federal grants	37,120
 <u>Nonmajor governmental funds</u>	
Management information systems	10
Alternative schools	125
Miscellaneous State grants	55
IDEA preschool-handicapped	56

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

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 cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC into three categories.

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

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all ESC deposits was \$1,490,482. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$866,626 of the ESC's bank balance of \$1,733,496 was covered by the FDIC, while \$866,870 was exposed to custodial risk as discussed below.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note disclosure:</u>	
Carrying amount of deposits	<u>\$ 1,490,482</u>
 <u>Cash and investments per statement of net assets:</u>	
Governmental activities	\$ 1,376,423
Agency funds	<u>114,059</u>
Total	<u>\$ 1,490,482</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2010 consisted of the following interfund loans receivable and payable, as reported in the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	IDEA Part-B grants	\$ 24,584
General	Drug-free schools grant	25,697
General	Miscellaneous federal grants	26,599
General	Nonmajor governmental funds	<u>3,561</u>
Total		<u>\$ 80,441</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, 2010 are reported on the statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 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 is as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 6 – RECEIVABLES – (Continued)

Governmental activities:

Accounts	\$	3,074
Intergovernmental		738,890
Accrued interest		<u>2,448</u>
Total	\$	<u>744,412</u>

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

<u>Governmental Activities:</u>	Balance <u>07/01/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 156,000			\$ 156,000
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,028,690			4,028,690
Equipment and furniture	683,489	\$ 83,699	\$ (58,168)	709,020
Vehicles	25,087			25,087
<i>Total capital assets, being depreciated</i>	<u>4,737,266</u>	<u>83,699</u>	<u>(58,168)</u>	<u>4,762,797</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(314,960)	(54,207)		(369,167)
Equipment and furniture	(580,020)	(48,779)	55,369	(573,430)
Vehicles	<u>(16,242)</u>	<u>(2,209)</u>		<u>(18,451)</u>
<i>Total accumulated depreciation</i>	<u>(911,222)</u>	<u>(105,195)</u>	<u>55,369</u>	<u>(961,048)</u>
Governmental activities capital assets, net	<u>\$ 3,982,044</u>	<u>\$ (21,496)</u>	<u>\$ (2,799)</u>	<u>\$ 3,957,749</u>

Depreciation expense was charged to governmental functions as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 7 - CAPITAL ASSETS – (Continued)

<u>Instruction:</u>	
Regular	\$ 1,697
Special	18,430
 <u>Support services:</u>	
Pupil	2,087
Instructional staff	19,463
Administration	5,229
Fiscal	938
Operations and maintenance	<u>57,351</u>
Total depreciation expense	<u>\$ 105,195</u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current fiscal year and a prior fiscal year, the ESC entered into lease agreements for a building and copiers. The terms of these lease agreements provide options to purchase the assets. These lease agreements meet 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 the 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. Governmental capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum payments as of the dates of their inception. A corresponding liability has been recorded and is presented as a component of long-term liabilities on the statement of net assets. During fiscal year 2010, principal payments equaled \$51,038 and interest payments equaled \$31,579. These amounts are reflected as debt service expenditures in the fund financial statements.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE – (Continued)

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, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2011	\$ 69,153
2012	69,153
2013	69,154
2014	69,153
2015	59,400
2016 - 2020	292,565
2021 - 2025	292,565
2026	<u>29,256</u>
Total future minimum lease payments	950,399
Less: amount representing interest	<u>(256,751)</u>
Present value of future minimum lease payments	<u>\$ 693,648</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Balance 07/01/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/10</u>	<u>Amount Due Within One Year</u>
<u>Governmental activities:</u>					
Capital lease obligation	\$ 698,189	\$ 46,497	\$ (51,038)	\$ 693,648	\$ 30,357
Compensated absences	<u>534,438</u>	<u>217,510</u>	<u>(257,013)</u>	<u>494,935</u>	<u>153,937</u>
Total long-term obligations	<u>\$ 1,232,627</u>	<u>\$ 264,007</u>	<u>\$ (308,051)</u>	<u>\$ 1,188,583</u>	<u>\$ 184,294</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 10 - RISK MANAGEMENT

A. Risk Pool Membership

The ESC is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 120 members. SORSA is a joint self-insurance pool. SORSA assumes the risk of loss up to the limits of the ESC's policy. SORSA covers the following risks:

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

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

The ESC paid \$9,739 in premiums to the pool for fiscal year 2010 coverage. Settled claims have not exceeded this coverage in any of the past three fiscal years.

SORSA financial statements are available by contacting SORSA at:
Schools of Ohio Risk Sharing Authority, Inc.
OSBA Building
8050 North High Street
Columbus, Ohio, 43235-6483

B. Employee Group Health, Dental and Prescription Drugs

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

C. Workers' Compensation

For fiscal year 2010, 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 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 10 - RISK MANAGEMENT – (Continued)

A participant will then either receive money from or be required to contribute to the “equity pooling fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan’s selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the Plan.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS’ Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$130,919, \$96,186 and \$95,031, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 11 - PENSION PLANS – (Continued)

contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$351,376, \$326,408 and \$325,755, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$4,826 made by the ESC and \$3,447 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, three members of the Board of Education have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$23,359, \$62,666 and \$67,023, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,785, \$7,936 and \$6,846, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$27,029, \$25,108 and \$25,058, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$1,965,464	\$1,965,764	\$2,063,489	\$97,725
Earnings on investments	25,000	25,000	27,203	2,203
Extracurricular			2,255	2,255
Rental Income	73,500	73,500	75,440	1,940
Contributions and donations			9,256	9,256
Contract Services	156,541	156,541	157,840	1,299
Other local revenues	8,500	8,500	10,520	2,020
Intergovernmental - Intermediate	72,000	72,000	48,000	(24,000)
Intergovernmental - State	803,097	803,097	764,942	(38,155)
Total revenue	<u>3,104,102</u>	<u>3,104,402</u>	<u>3,158,945</u>	<u>54,543</u>
Expenditures:				
Current:				
Instruction:				
Regular	264,568	264,568	91,127	173,441
Special	899,326	899,326	676,387	222,939
Other			4,248	(4,248)
Support services:				
Pupil	715,527	715,527	662,786	52,741
Instructional staff	1,457,900	1,458,200	891,046	567,154
Board of education	71,020	71,020	25,864	45,156
Administration	219,453	219,453	219,902	(449)
Fiscal	270,626	270,626	227,752	42,874
Operations and maintenance	363,393	363,393	211,666	151,727
Pupil transportation	25,000	25,000	5,176	19,824
Central	12,000	12,000	10,203	1,797
Total expenditures	<u>4,298,813</u>	<u>4,299,113</u>	<u>3,026,157</u>	<u>1,272,956</u>
Excess of revenues over (under) expenditures	<u>(1,194,711)</u>	<u>(1,194,711)</u>	<u>132,788</u>	<u>1,327,499</u>
Other financing sources (uses):				
Refund of prior year receipts			(4,764)	4,764
Net change in fund balance	(1,194,711)	(1,194,711)	128,024	1,332,263
Fund balance at beginning of year	1,209,849	1,209,849	1,209,849	
Prior year encumbrances appropriated	62,476	62,476	62,476	
Fund balance at end of year	<u>\$77,614</u>	<u>\$77,614</u>	<u>\$1,400,349</u>	<u>\$1,332,263</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS FEDERAL GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$698,694	\$966,350	\$669,059	(\$297,291)
Expenditures:				
Current:				
Instruction:				
Regular	292,358	284,263	273,000	11,263
Special	4,500	34,725	34,168	557
Support services:				
Pupil	163,976	98,987	87,044	11,943
Instructional staff	186,295	487,162	419,170	67,992
Administration		11,600	11,558	42
Fiscal	2,130	300	300	
Pupil transportation	37,562	42,162	42,161	1
Central	3,080	4,143	4,143	
Operation of non-instructional services	43,090	37,305	37,305	
Total expenditures	<u>732,991</u>	<u>1,000,647</u>	<u>908,849</u>	<u>91,798</u>
Net change in fund balance	(34,297)	(34,297)	(239,790)	(205,493)
Fund balance (deficit) at beginning of year	(41,117)	(41,117)	(41,117)	
Prior year encumbrances appropriated	<u>75,414</u>	<u>75,414</u>	<u>75,414</u>	
Fund balance (deficit) at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>(\$205,493)</u></u>	<u><u>(\$205,493)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
IDEA PART B GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$938,620	\$938,620	\$906,565	(\$32,055)
Expenditures:				
Current:				
Instruction:				
Special	463,360	579,200	579,199	1
Support services:				
Pupil	471,957	356,117	348,647	7,470
Fiscal	17,376	17,376	17,376	
Extracurricular activities	13,901	13,901	13,901	
Total expenditures	<u>966,594</u>	<u>966,594</u>	<u>959,123</u>	<u>7,471</u>
Net change in fund balance	(27,974)	(27,974)	(52,558)	(24,584)
Fund balance at beginning of year	<u>(27,974)</u>	<u>27,974</u>	<u>27,974</u>	
Fund balance at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>(\$24,584)</u></u>	<u><u>(\$24,584)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
DRUG FREE SCHOOL GRANT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
Intergovernmental - Federal	\$888,482	\$1,338,791	\$801,000	(\$537,791)
Expenditures:				
Current:				
Instruction:				
Regular	120,142	167,164	64,155	103,009
Support services:				
Pupil	180,886	196,367	163,875	32,492
Instructional staff	436,889	798,706	524,676	274,030
Administration	57,380	96,291	82,512	13,779
Fiscal	14,151	13,982	9,090	4,892
Business	8,715	19,000	10,233	8,767
Pupil transportation	59,457	43,800	6,752	37,048
Central	36,749	29,368	20,412	8,956
Total expenditures	<u>914,369</u>	<u>1,364,678</u>	<u>881,705</u>	<u>482,973</u>
Net change in fund balance	(25,887)	(25,887)	(80,705)	(54,818)
Fund balance at beginning of year	10,447	10,447	10,447	
Prior year encumbrances appropriated	<u>15,440</u>	<u>15,440</u>	<u>15,440</u>	
Fund balance at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>(\$54,818)</u></u>	<u><u>(\$54,818)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - BUDGETARY BASIS OF ACCOUNTING

There are no budgetary requirements for educational service centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed.

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

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

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

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

The Schedule of Revenues, 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).

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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	Miscellaneous Federal Grants	IDEA Part B Grants	Drug Free School Grant
Budget basis	\$128,024	(\$239,790)	(\$52,558)	(\$80,705)
Net adjustment for revenue accruals	(5,980)	233		
Net adjustment for expenditure accruals	(143,967)	(11,636)	7,554	(1,115)
Net adjustment for other sources/uses	51,261			
Adjustment for encumbrances	27,922	178,894		29,121
GAAP basis	<u>\$57,260</u>	<u>(\$72,299)</u>	<u>(\$45,004)</u>	<u>(\$52,699)</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDING JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Twenty-First Century Community Learning Centers	84.287	\$337,334	\$408,378
Adult Education - Basic Grants to States	84.002	27,321	40,069
Migrant Education - State Grant Program	84.011	202,884	213,493
<u>Special Education Cluster</u>			
Special Education - Grants to States	84.027	906,565	959,123
Special Education - Preschool Grant	84.173	22,095	22,095
ARRA - Early Childhood	84.392	32,012	32,012
Total Special Education Cluster		<u>960,672</u>	<u>1,013,230</u>
Direct Assistance			
Safe and Drug-Free Schools and Communities	84.184	801,000	852,584
Fund for the Improvement of Education	84.215	204,000	213,112
Total Department of Education		<u>2,533,211</u>	<u>2,740,866</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			
<i>Passed Through Ohio Department of Education</i>			
Learn and Serve America - School and Community Based Programs	94.004	2,832	332
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Assistance			
Drug Free Communities Support Program Grants	93.276	80,000	74,658
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Summer Food Service Program for Children	10.559	12,167	
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$2,628,210</u></u>	<u><u>\$2,815,856</u></u>

See accompanying notes to the Federal Awards Receipts and Expenditures Schedule

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

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Dave Yost • Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Putnam County, (the ESC) as of and for the year ended June 30, 2010, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the ESC's management in a separate letter dated March 11, 2011.

We intend this report solely for the information and use of management, the audit committee, Governing Board, federal awarding agencies and pass-through entities and others within the ESC. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

March 11, 2011



Dave Yost • Auditor of State

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center, Putnam County, (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Educational Service Center's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal programs. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC'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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

In our opinion, the Educational Service Center, Putnam County complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The ESC's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the ESC's internal control over compliance with the requirements that could directly and materially affect a major federal program, 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted a matter involving internal control over federal compliance not requiring inclusion in this report, that we reported to the ESC's management in a separate letter dated March 11, 2011.

We intend this report solely for the information and use of the audit committee, management, Governing Board, others within the ESC, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

March 11, 2011

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education – Grants to States CFDA # 84.027 Special Education – Preschool Grants CFDA # 84.173 ARRA- Preschool Grants CFDA #84.392 Safe and Drug-Free Schools Communities CFDA # 84.184
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Material Weakness – Financial Reporting

Accurate financial reporting is the responsibility of the Fiscal Officer and is essential to ensure the information provided to the readers of the financial statements accurately reflects the ESC's activity.

The 2010 financial statements contained the following errors:

- \$421,444 understatement of Special Education expense in the charges for services presentation in the statement of activities and overstatement various expense line items.
- \$115,840 error in original appropriations expense line items in the Fund IDEA VI-B
- \$170,559 error in original appropriations expense line items in the Miscellaneous Federal Grant Fund
- \$98,265 error in original appropriations expense line items in the Drug Free Grant Fund

The financial statements and schedules presented have been adjusted to reflect these corrections.

To ensure the ESC's financial statements, schedules and notes to the statements are complete and accurate, the Governing Board should adopt policies and procedures, including a final review of the financial statements, schedules, management discussion and analysis, and notes to the financial statements to identify and correct errors and omissions.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Financial Reporting recommendation for amounts on report not properly classified.	No	Finding has not been corrected and is repeated in this report as item 2010-001.

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PUTNAM 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 29, 2011