



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Fiduciary Net Assets - Fiduciary Fund	19
Notes to the Basic Financial Statements.....	20
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	40
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – Miscellaneous State Grants Fund	41
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – IDEA Part B Grants Fund	42
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – Drug Free Schools Fund.....	43
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – Miscellaneous Federal Grants Fund	44
Notes to Supplemental Information	45
Federal Awards Receipts and Expenditures Schedule.....	47
Notes to the Federal Awards Receipts and Expenditures Schedule	48
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	51
Schedule of Findings.....	53
Schedule of Prior Audit Findings.....	55

This page intentionally left blank.



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, 2011, 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 Educational Service Center, Putnam County, Ohio, as of June 30, 2011, 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.

As described in Note 3, during fiscal year 2011, the Educational Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, 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 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 16, 2012

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The management's discussion and analysis of 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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities increased \$379,064 which represents a 8.96% increase from 2010.
- General revenues accounted for \$858,243 in revenue or 12.50% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,007,004 or 87.50% of total revenues of \$6,865,247.
- The ESC had \$6,486,183 in expenses related to governmental activities; \$6,007,004 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 \$858,243 were adequate to provide for these programs.
- The ESC's major governmental funds are the General Fund, the Miscellaneous State Grants Fund, the IDEA Part B Grant Fund, the Drug Free Schools Grant fund and the Miscellaneous Federal Grants Fund. The General Fund had \$3,125,412 in revenues and other financing sources and \$2,949,905 in expenditures. During fiscal year 2011, the General Fund's fund balance increased \$175,507 from \$790,151 to \$965,658.
- The Miscellaneous State Grants Fund had \$720,893 in revenues and \$452,704 in expenditures. During fiscal year 2011, the Miscellaneous State Grants Fund's fund balance increased \$268,189 from a deficit of \$55 to a balance of \$268,134.
- The IDEA Part B Grant Fund had \$1,097,044 in revenues and \$1,111,311 in expenditures. During fiscal year 2011, the IDEA Part B Grant Fund's fund balance decreased \$14,267 from a deficit fund balance of \$29,980 to a deficit balance of \$44,247.
- The Drug Free Schools Grant Fund had \$994,447 in revenues and \$935,196 in expenditures. During fiscal year 2011, the Drug Free Schools Grant Fund's fund balance increased \$59,251 from a deficit balance of \$39,269 to a balance of \$19,982.
- The Miscellaneous Federal Grants Fund had \$766,477 in revenues and \$649,259 in expenditures. During fiscal year 2011, the Miscellaneous Federal Grants Fund's fund balance increased \$117,218 from a deficit balance of \$37,120 to a balance of \$80,098.

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

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. 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 Miscellaneous State Grants 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 2011?" 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, operations and maintenance and extracurricular activities.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the basic financial statements.

Reporting the ESC's Fiduciary Responsibilities

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

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 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
	<u> </u>	<u> </u>
<u>Assets</u>		
Current and other assets	\$2,424,606	\$2,120,835
Capital assets	3,982,419	3,957,749
Total assets	<u>6,407,025</u>	<u>6,078,584</u>
<u>Liabilities</u>		
Current liabilities	661,724	657,398
Long-term liabilities	1,133,634	1,188,583
Total liabilities	<u>1,795,358</u>	<u>1,845,981</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,327,871	3,264,101
Restricted	802,257	642,476
Unrestricted	481,539	326,026
Total net assets	<u><u>\$4,611,667</u></u>	<u><u>\$4,232,603</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the ESC's assets exceeded liabilities by \$4,611,667.

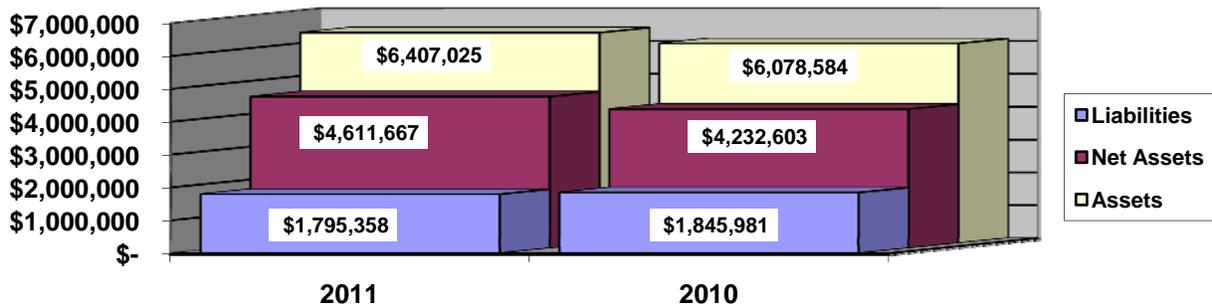
At year-end, capital assets represented 62.16% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$3,327,871. These capital assets are used to provide services 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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

A portion of the ESC's net assets, \$802,257, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$481,539 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 2011 and 2010.

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$2,232,922	\$2,303,641
Operating grants and contributions	3,774,082	2,502,218
General revenues:		
Grants and entitlements	794,632	812,942
Investment earnings	5,839	23,116
Other	57,772	10,190
Total revenues	6,865,247	5,652,107

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

	Change in Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Expenses</u>	<u> </u>	<u> </u>
Program expenses:		
Instruction:		
Regular	\$889,054	\$396,884
Special	959,903	914,721
Adult/continuing	28,978	23,538
Other	80	4,248
Support services:		
Pupil	1,005,773	974,320
Instructional staff	1,616,630	1,928,506
Board of education	28,369	25,877
Administration	273,107	310,272
Fiscal	285,499	247,213
Business	13,793	10,192
Operations and maintenance	98,584	166,849
Pupil transportation	97,058	95,465
Central	24,091	33,304
Operation of non-instructional services:		
Other non-instructional services	24,008	44,246
Intergovernmental pass-through	1,111,311	951,569
Interest and fiscal charges	29,945	31,437
Total expenses	<u>6,486,183</u>	<u>6,158,641</u>
Change in net assets	379,064	(506,534)
Net assets at beginning of year	<u>4,232,603</u>	<u>4,739,137</u>
Net assets at end of year	<u><u>\$4,611,667</u></u>	<u><u>\$4,232,603</u></u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$379,064. Total governmental expenses of \$6,486,183 were offset by program revenues of \$6,007,004 and general revenues of \$858,243. Program revenues supported 92.61% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from operating grants and contributions. These revenue sources represent 54.97% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$3,442,904 or 53.08% of total governmental expenses for fiscal year 2011.

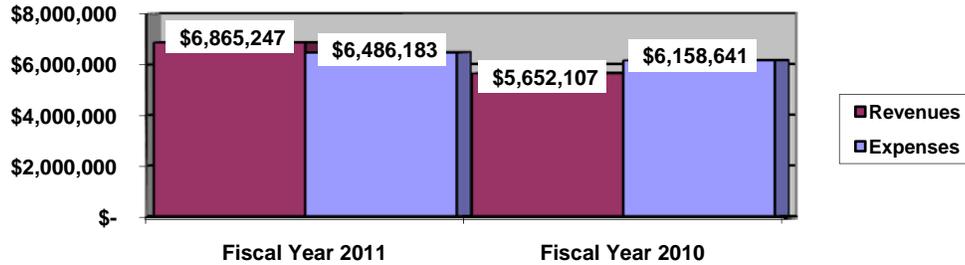
Operating grants and contributions and expenses related to regular instruction increased due to the \$694,179 STEM grant that the ESC received during the current fiscal year.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2011 and 2010.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$889,054	(\$318,104)	\$396,884	\$68,848
Special	959,903	(1,222,853)	914,721	(1,406,036)
Adult/continuing	28,978	2,011	23,538	(1,742)
Other	80	80	4,248	4,248
Support services:				
Pupil	1,005,773	694,160	974,320	789,945
Instructional staff	1,616,630	933,845	1,928,506	1,241,969
Board of education	28,369	28,369	25,877	25,877
Administration	273,107	185,110	310,272	272,568
Fiscal	285,499	276,837	247,213	195,549
Business	13,793	3,331	10,192	7,796
Operations and maintenance	98,584	(115,063)	166,849	88,181
Pupil transportation	97,058	1,570	95,465	7,893
Central	24,091	7,259	33,304	18,540
Operation of non-instructional services:				
Other non-instructional services	24,008	1,347	44,246	(5,240)
Inergovernmental pass-through	1,111,311	(28,665)	951,569	12,949
Interest and fiscal charges	29,945	29,945	31,437	31,437
Total expenses	\$6,486,183	\$479,179	\$6,158,641	\$1,352,782

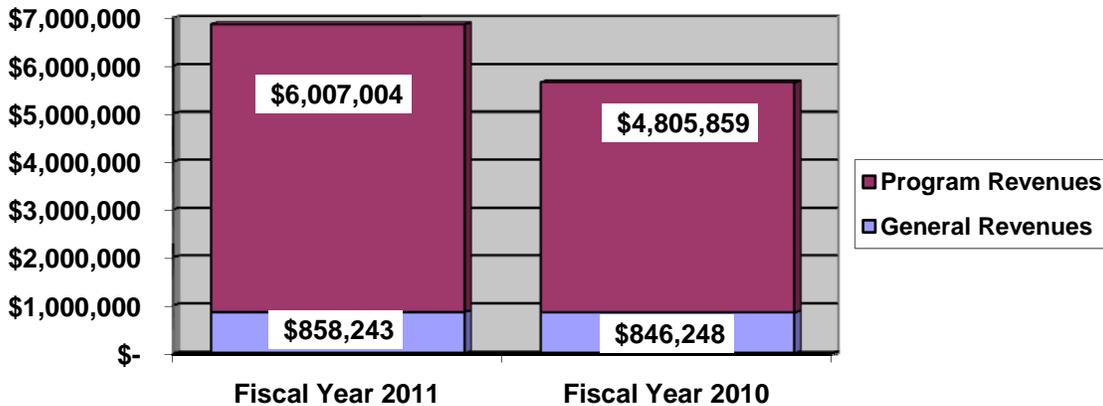
The dependence upon program revenues for governmental activities is apparent; program revenue support is 92.61%. The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The graph below presents the ESC's governmental activities revenue for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,437,640, which is higher than last year's total of \$723,370. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Fund Balance (Deficit) <u>June 30, 2010</u>	Increase (Decrease)	Percentage Change
General	\$965,658	\$790,151	\$175,507	22.21 %
Miscellaneous State Grants	268,134	(55)	268,189	487,616.36 %
IDEA Part B Grant	(44,247)	(29,980)	(14,267)	(47.59) %
Drug Free Schools	19,982	(39,269)	59,251	150.88 %
Miscellaneous Federal Grants	80,098	(37,120)	117,218	315.78 %
Other Governmental	148,015	39,643	108,372	273.37 %
Total	<u>\$1,437,640</u>	<u>\$723,370</u>	<u>\$714,270</u>	98.74 %

General Fund

The ESC's General Fund balance increased by \$175,507. The increase in fund balance can be attributed to a decrease in expenditures related to support services. Revenues exceed expenditures for fiscal year 2011 by \$141,909.

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

	2011 Amount	2010 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Tuition	\$2,002,605	\$2,058,235	(\$55,630)	(2.70) %
Contract Services	130,956	157,840	(26,884)	(17.03) %
Earnings on investments	6,488	26,192	(19,704)	(75.23) %
Intergovernmental	794,632	812,942	(18,310)	(2.25) %
Other revenues	157,133	97,756	59,377	60.74 %
Total	<u>\$3,091,814</u>	<u>\$3,152,965</u>	<u>(\$61,151)</u>	(1.94) %
<u>Expenditures</u>				
Instruction	\$798,322	\$797,016	\$1,306	0.16 %
Support services	2,093,070	2,236,944	(143,874)	(6.43) %
Capital outlay		32,147	(32,147)	100.00 %
Debt service	58,513	76,095	(17,582)	(23.11) %
Total	<u>\$2,949,905</u>	<u>\$3,142,202</u>	<u>(\$192,297)</u>	(6.12) %

Miscellaneous State Grants Fund

The Miscellaneous State Grants Fund had \$720,893 in revenues and \$452,704 in expenditures. During fiscal year 2011, the Miscellaneous State Grants Fund's fund balance increased \$268,189 from a deficit of \$55 to a balance of \$268,134.

IDEA Part B Grant Fund

The IDEA Part B Grant Fund had \$1,097,044 in revenues and \$1,111,311 in expenditures. During fiscal year 2011, the IDEA Part B Grant Fund's fund balance decreased \$14,267 from a deficit fund balance of \$29,980 to a deficit balance of \$44,247.

Drug Free Schools Grant Fund

The Drug Free Schools Grant Fund had \$994,447 in revenues and \$935,196 in expenditures. During fiscal year 2011, the Drug Free Schools Grant Fund's fund balance increased \$59,251 from a deficit balance of \$39,269 to a balance of \$19,982.

Miscellaneous Federal Grants Fund

The Miscellaneous Federal Grants Fund had \$766,477 in revenues and \$649,259 in expenditures. During fiscal year 2011, the Miscellaneous Federal Grants Fund's fund balance increased \$117,218 from a deficit balance of \$37,120 to a balance of \$80,098.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the ESC had \$3,982,419 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 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$156,000	\$156,000
Building and improvements	3,569,679	3,659,523
Furniture and equipment	250,482	135,590
Vehicles	6,258	6,636
Total	<u>\$3,982,419</u>	<u>\$3,957,749</u>

The overall increase in capital assets is due to capital outlays of \$136,419 exceeding depreciation expense of \$72,780 and disposals of \$38,969 (net of accumulated depreciations) 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, 2011, the ESC had \$654,548 in capital lease obligations outstanding. Of this total, \$40,922 is due within one year and \$613,626 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2011	Governmental Activities 2010
Capital lease obligations	<u>\$654,548</u>	<u>\$693,648</u>

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 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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

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

Another challenge facing the ESC is the maintenance and renting of a new facility that houses our offices, as well as, a higher education facility with six flexible classrooms. The cost of the facility is around \$3.3 million, with our investment being \$1 million over a 25 year lease purchase agreement with the Village of Ottawa. A grant from the EDA 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 citizens' taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Michael Siebeneck, Treasurer, Putnam County ESC, 124 Putnam Parkway, Ottawa, Ohio 45875-8657.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,589,374
Receivables:	
Accounts	49,583
Intergovernmental	784,149
Accrued interest	1,500
Capital assets:	
Land	156,000
Depreciable capital assets, net	3,826,419
Capital assets, net	3,982,419
 Total assets	 \$6,407,025
 Liabilities:	
Accounts payable	30,659
Accrued wages and benefits	529,215
Pension obligation payable	81,269
Intergovernmental payable	18,420
Accrued interest payable	2,161
Long-term liabilities:	
Due within one year	162,153
Due in more than one year	971,481
 Total liabilities	 1,795,358
 Net Assets:	
Invested in capital assets, net of related debt	3,327,871
Restricted for:	
Locally funded programs	4,854
State funded programs	355,960
Federally funded programs	441,443
Unrestricted	481,539
 Total net assets	 \$4,611,667

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$889,054	\$75,520	\$1,131,638	\$318,104
Special	959,903	1,958,603	224,153	1,222,853
Adult/continuing	28,978		26,967	(2,011)
Other	80			(80)
Support services:				
Pupil	1,005,773		311,613	(694,160)
Instructional staff	1,616,630		682,785	(933,845)
Board of education	28,369			(28,369)
Administration	273,107		87,997	(185,110)
Fiscal	285,499		8,662	(276,837)
Business	13,793		10,462	(3,331)
Operations and maintenance	98,584	198,799	14,848	115,063
Pupil transportation	97,058		95,488	(1,570)
Central	24,091		16,832	(7,259)
Operation of non-instructional services:				
Other non-instructional services	24,008		22,661	(1,347)
Intergovernmental pass-through	1,111,311		1,139,976	28,665
Interest and fiscal charges	29,945			(29,945)
Totals	\$6,486,183	\$2,232,922	\$3,774,082	(479,179)
General Revenues:				
				794,632
Grants and entitlements not restricted to specific programs				5,839
Investment earnings				57,772
Miscellaneous				
Total general revenues				858,243
Change in net assets				379,064
Net assets at beginning of year				4,232,603
Net assets at end of year				\$4,611,667

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>IDEA Part B Grants</u>	<u>Drug Free School Grant</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:							
Equity in pooled cash and cash equivalents	\$1,251,157	\$301,597				\$36,620	\$1,589,374
Receivables:							
Accounts	49,583						49,583
Intergovernmental		78,284	\$92,698	\$178,830	\$214,772	219,565	784,149
Accrued interest	1,500						1,500
Interfund receivable	214,946						214,946
Total assets	<u>\$1,517,186</u>	<u>\$379,881</u>	<u>\$92,698</u>	<u>\$178,830</u>	<u>\$214,772</u>	<u>\$256,185</u>	<u>\$2,639,552</u>
Liabilities:							
Accounts payable		\$30,659					\$30,659
Accrued wages and benefits	\$465,954	3,068	\$12,519	\$35,887		\$11,787	529,215
Pension obligation payable	71,326	430	110	5,844		3,559	81,269
Intergovernmental payable	12,748	459	2,430	1,499	\$507	777	18,420
Interfund payable			46,899	115,618	46,947	5,482	214,946
Deferred revenue	1,500	77,131	74,987		87,220	86,565	327,403
Total liabilities	<u>551,528</u>	<u>111,747</u>	<u>136,945</u>	<u>158,848</u>	<u>134,674</u>	<u>108,170</u>	<u>1,201,912</u>
Fund Balances:							
Restricted:							
Adult education						231	231
Migrant program						160,738	160,738
Other purposes		268,134		19,982	80,098	4,854	373,068
Assigned:							
Student instruction	1,771						1,771
Student and staff support	22,564						22,564
Unassigned (deficit)	941,323		(44,247)			(17,808)	879,268
Total fund balances	<u>965,658</u>	<u>268,134</u>	<u>(44,247)</u>	<u>19,982</u>	<u>80,098</u>	<u>148,015</u>	<u>1,437,640</u>
Total liabilities and fund balances	<u>\$1,517,186</u>	<u>\$379,881</u>	<u>\$92,698</u>	<u>\$178,830</u>	<u>\$214,772</u>	<u>\$256,185</u>	<u>\$2,639,552</u>

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$1,437,640
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,982,419
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Accrued interest receivable	\$1,500	
Intergovernmental receivable	325,903	
Total	327,403	327,403
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligations	(654,548)	
Compensated absences	(479,086)	
Accrued interest payable	(2,161)	
Total	(1,135,795)	(1,135,795)
Net assets of governmental activities		\$4,611,667

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Miscellaneous State Grants	IDEA Part B Grants	Drug Free School Grant	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:							
From local sources:							
Tuition	\$2,002,605						\$2,002,605
Earnings on investments	6,488						6,488
Extracurricular	20						20
Rental income	74,558						74,558
Contributions and donations	24,783						24,783
Contract services	130,956						130,956
Other local revenues	57,772						57,772
Intergovernmental - intermediate	14,288					\$172	14,460
Intergovernmental - state	780,344	\$720,893				157,662	1,658,899
Intergovernmental - federal			\$1,097,044	\$994,447	\$766,477	426,209	3,284,177
Total revenues	3,091,814	720,893	1,097,044	994,447	766,477	584,043	7,254,718
Expenditures:							
Current:							
Instruction:							
Regular	29,636	425,974		70,538	326,661	30,665	883,474
Special	768,606					174,094	942,700
Adult/continuing						28,978	28,978
Other	80						80
Support services:							
Pupil	654,850	26,730		181,781	103,250	33,727	1,000,338
Instructional staff	883,448			552,841	154,681	126,044	1,717,014
Board of education	28,369						28,369
Administration	169,673			85,588	33	16,340	271,634
Fiscal	264,478			110		8,918	273,506
Business				13,793			13,793
Operations and maintenance	78,014					10,525	88,539
Pupil transportation	10,958			12,307	33,345	40,448	97,058
Central	3,280			14,238	4,298	2,275	24,091
Operation of non-instructional services:							
Other non-instructional services					20,895	3,113	24,008
Intergovernmental pass-through			1,111,311				1,111,311
Debt service:							
Principal retirement	30,357			3,287	5,009	447	39,100
Interest and fiscal charges	28,156			713	1,087	97	30,053
Total expenditures	2,949,905	452,704	1,111,311	935,196	649,259	475,671	6,574,046
Excess of revenues over (under) expenditures	141,909	268,189	(14,267)	59,251	117,218	108,372	680,672
Other financing sources:							
Sale of capital assets	33,598						33,598
Net change in fund balances	175,507	268,189	(14,267)	59,251	117,218	108,372	714,270
Fund balances at beginning of year (deficit)	790,151	(55)	(29,980)	(39,269)	(37,120)	39,643	723,370
Fund balances at end of year (deficit)	\$965,658	\$268,134	(\$44,247)	\$19,982	\$80,098	\$148,015	\$1,437,640

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds		\$714,270
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$136,419	
Current year depreciation	(72,780)	
Total		63,639
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(38,969)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Accrued interest	1,500	
Intergovernmental	(390,971)	
Total		(389,471)
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.		
		39,100
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.		
		108
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(9,613)
Change in net assets of governmental activities		\$379,064

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$131,225</u>
Liabilities:	
Accrued wages and benefits	\$2,509
Pension obligation payable	3,949
Intergovernmental payable	765
Due to other governments	<u>124,002</u>
Total liabilities	<u><u>\$131,225</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, 2011**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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 44 certified employees (including administrative) and 30 classified employees to provide services to approximately 6,068 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 it does 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, 2011
(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, 2011
(Continued)**

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

General Fund -The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Miscellaneous State Grants Fund - A special revenue fund used to account for and report grant monies received through various State agencies that are restricted to expenditures for specified purposes. This fund reports State grants which are not classified elsewhere.

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

Drug Free School Grant Fund - A special revenue fund used to account for and report grant monies restricted to expenditures for preventing violence in and around schools and strengthen programs that prevent the illegal use of alcohol, tobacco, and drugs, involve parents, and coordinate with Federal, State, and community efforts and resources.

Miscellaneous Federal Grants Fund - A special revenue fund used to account for and report grant monies received through State agencies from the federal government or directly from the federal government that are restricted to expenditures for specified purposes. This fund reports federal grants which are not classified elsewhere.

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net 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, 2011
(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.

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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 2011, investments were limited to certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposits, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$6,488, which includes \$640 assigned from other funds.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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 2011, 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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, 2011, the ESC had \$214,946 of interfund receivables in the General Fund and payable from major and nonmajor governmental funds (See Note 5).

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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, 2011, 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, 2011 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.

J. Fund Balance

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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

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

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

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

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

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

K. Net 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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

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 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the ESC has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the ESC.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (CONTINUED)

B. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficit</u>
IDEA Part B grants	\$44,247
 <u>Nonmajor governmental funds</u>	
Management information systems	6
Public school preschool	16,959
Alternative schools	832
IDEA preschool - handicapped	11

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. The deficit fund balances resulted from 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;

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (CONTINUED)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool.

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, 2011, the carrying amount of all ESC deposits was \$1,720,599. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$773,118 of the ESC's bank balance of \$1,911,665 was covered by the FDIC, while \$1,138,547 was exposed to custodial risk as discussed below.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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

B. Reconciliation of Cash and Investments to the Statement of Net 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, 2011:

<u>Cash and investments per note disclosure:</u>	
Carrying amount of deposits	\$1,720,599
<u>Cash and investments per statement of net assets:</u>	
Governmental activities	\$1,589,374
Agency funds	131,225
Total	\$1,720,599

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2011 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	\$46,899
General	Drug free schools grant	115,618
General	Miscellaneous federal grants	46,947
General	Nonmajor governmental funds	5,482
Total		\$214,946

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (CONTINUED)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 are reported on the statement of net assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 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:

Governmental activities:

Accounts	\$49,583
Intergovernmental	784,149
Accrued interest	<u>1,500</u>
Total	<u><u>\$835,232</u></u>

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>07/01/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	<u>\$156,000</u>			<u>\$156,000</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,028,690		(\$90,000)	3,938,690
Equipment and furniture	709,020	\$136,419	(170,742)	674,697
Vehicles	25,087		(3,000)	22,087
<i>Total capital assets, being depreciated</i>	<u>4,762,797</u>	<u>136,419</u>	<u>(263,742)</u>	<u>4,635,474</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(369,167)	(53,677)	53,833	(369,011)
Equipment and furniture	(573,430)	(18,725)	167,940	(424,215)
Vehicles	(18,451)	(378)	3,000	(15,829)
<i>Total accumulated depreciation</i>	<u>(961,048)</u>	<u>(72,780)</u>	<u>224,773</u>	<u>(809,055)</u>
Governmental activities capital assets, net	<u><u>\$3,957,749</u></u>	<u><u>\$63,639</u></u>	<u><u>(\$38,969)</u></u>	<u><u>\$3,982,419</u></u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 7 - CAPITAL ASSETS – (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$1,677
Special	17,860
<u>Support services:</u>	
Pupil	1,663
Instructional staff	14,913
Administration	263
Fiscal	1,239
Operations and maintenance	<u>35,165</u>
Total depreciation expense	<u><u>\$72,780</u></u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, 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 2011, principal payments equaled \$39,100 and interest payments equaled \$30,053. These amounts are reflected as debt service expenditures in the fund financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2011:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

Fiscal Year Ending June 30	Payments
2012	\$69,153
2013	69,154
2014	69,153
2015	59,400
2016	58,513
2017 - 2021	292,565
2022 - 2026	263,308
Total future minimum lease payments	881,246
Less: amount representing interest	(226,698)
Present value of future minimum lease payments	\$654,548

NOTE 9 - LONG-TERM OBLIGATIONS

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

Governmental activities:	Balance 07/01/10	Increases	Decreases	Balance 06/30/11	Amount Due Within One Year
Capital lease obligation	\$693,648		(\$39,100)	\$654,548	\$40,922
Compensated absences	494,935	\$140,387	(156,236)	479,086	121,231
Total long-term obligations	\$1,188,583	\$140,387	(\$195,336)	\$1,133,634	\$162,153

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.

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
- Sexual Misconduct
- Commercial Umbrella
- Vehicle

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 10 - RISK MANAGEMENT – (CONTINUED)

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 2011 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 2011, the ESC participated in the Ohio School Boards Association/Ohio Association of School Business Officials Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - PENSION PLANS – (CONTINUED)

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 "*Media/Financial Reports*".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$118,245, \$130,919 and \$96,186, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 11 - PENSION PLANS – (CONTINUED)

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 2011, 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, 2011, 2010 and 2009 were \$341,454, \$351,376 and \$326,408, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$1,107 made by the ESC and \$791 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, 2011, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in 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 2011 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 "*Media/Financial Reports*".

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

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 2011, 1.43 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 2011, 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, 2011, 2010, and 2009 were \$34,439, \$23,359 and \$62,666, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$7,609, \$7,785 and \$7,936, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, 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, 2011, 2010 and 2009 were \$26,266, \$27,029 and \$25,108, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 14 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$24,336
IDEA Part B Grants	15,050
Drug Free School Grant	9,617
Miscellaneous Federal Grants	344,715
Other governmental	<u>168,526</u>
Total	<u><u>\$562,244</u></u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Tuition	\$2,009,177	\$1,999,177	\$2,003,000	\$3,823
Earnings on investments	25,000	10,000	6,787	(3,213)
Extracurricular	500	500	20	(480)
Rental income	56,500	56,500	75,173	18,673
Contributions and donations			24,783	24,783
Contract services	132,268	116,268	130,956	14,688
Other local revenues	8,800	8,800	10,253	1,453
Intergovernmental - intermediate	45,000	71,000	14,288	(56,712)
Intergovernmental - State	799,186	799,186	780,344	(18,842)
Total revenues	3,076,431	3,061,431	3,045,604	(15,827)
Expenditures:				
Current:				
Instruction:				
Regular	36,819	36,819	40,575	(3,756)
Special	880,887	880,887	774,622	106,265
Other	6,250	6,250		6,250
Support services:				
Pupil	837,915	837,915	692,238	145,677
Instructional staff	1,457,555	1,457,555	938,498	519,057
Board of education	58,270	58,270	28,395	29,875
Administration	325,549	325,549	174,720	150,829
Fiscal	302,520	302,520	265,892	36,628
Operations and maintenance	233,124	233,124	136,528	96,596
Pupil transportation	8,000	8,000	10,958	(2,958)
Central	12,000	12,000	3,280	8,720
Total expenditures	4,158,889	4,158,889	3,065,706	1,093,183
Excess of expenditures over revenues	(1,082,458)	(1,097,458)	(20,102)	1,077,356
Other financing sources (uses):				
Transfers in			7,420	7,420
Transfers (out)			(7,420)	(7,420)
Sale of capital assets		33,598	33,598	
Total other financing sources (uses)		33,598	33,598	
Net change in fund balance	(1,082,458)	(1,063,860)	13,496	1,077,356
Fund balance at beginning of year (restated)	1,397,500	1,397,500	1,397,500	
Prior year encumbrances appropriated	27,922	27,922	27,922	
Fund balance at end of year	\$342,964	\$361,562	\$1,438,918	\$1,077,356

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 STATE GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State		\$798,024	\$719,740	(\$78,284)
Expenditures:				
Current:				
Instruction:				
Regular		771,310	766,804	4,506
Support Services:				
Pupil		26,714	26,714	
Total expenditures		798,024	793,518	4,506
Net change in fund balance			(73,778)	(73,778)
Fund balance at beginning of year	\$1	1	1	
Fund balance at end of year	\$1	\$1	(\$73,777)	(\$73,778)

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$972,032	\$1,172,032	\$1,079,333	(\$92,699)
Expenditures:				
Current:				
Instruction:				
Special	454,422	550,348	530,247	20,101
Support Services:				
Pupil	289,192	350,239	350,239	
Instructional staff	158,766	192,280	181,632	10,648
Fiscal	36,265	43,920	43,920	
Operation of non-instructional services	8,802	10,660	10,660	
Total expenditures	<u>947,447</u>	<u>1,147,447</u>	<u>1,116,698</u>	<u>30,749</u>
Net change in fund balance	24,585	24,585	(37,365)	(61,950)
Fund balance at beginning of year	<u>(24,584)</u>	<u>(24,584)</u>	<u>(24,584)</u>	
Fund balance at end of year	<u>\$1</u>	<u>\$1</u>	<u>(\$61,949)</u>	<u>(\$61,950)</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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental - federal	\$537,791	\$1,574,724	\$815,617	(\$759,107)
Expenditures:				
Current:				
Instruction:				
Regular	60,122	181,864	69,575	112,289
Support Services:				
Pupil	79,779	241,322	186,983	54,339
Instructional staff	286,083	865,368	527,174	338,194
Administration	40,586	122,767	90,887	31,880
Fiscal	18,012	54,485	128	54,357
Business	6,591	19,938	13,793	6,145
Pupil transportation	11,042	33,400	12,357	21,043
Central	9,879	29,882	14,258	15,624
Total expenditures	512,094	1,549,026	915,155	633,871
Net change in fund balance	25,697	25,698	(99,538)	(125,236)
Fund balance at beginning of year	(54,818)	(54,818)	(54,818)	
Prior year encumbrances appropriated	29,121	29,121	29,121	
Fund balance at end of year		\$1	(\$125,235)	(\$125,236)

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Intergovernmental - Federal	\$861,041	\$866,890	\$641,837	(\$225,053)
Expenditures:				
Current:				
Instruction:				
Regular	359,928	362,451	357,907	4,544
Special	993	1,000		1,000
Support Services:				
Pupil	126,101	126,985	103,994	22,991
Instructional staff	245,518	247,239	218,300	28,939
Administration	42	42	42	
Fiscal	19,364	19,500		19,500
Pupil transportation	32,878	33,108	33,898	(790)
Central	20,265	20,407	4,304	16,103
Operation of non-instructional services	27,807	28,002	28,119	(117)
Total expenditures	832,896	838,734	746,564	92,170
Excess of revenues over (under) expenditures	28,145	28,156	(104,727)	(132,883)
Other financing sources:				
Refund of prior year's receipts	(1,546)	(1,557)	(11,557)	(10,000)
Net change in fund balance	26,599	26,599	(116,284)	(142,883)
Fund balance at beginning of year	(205,493)	(205,493)	(205,493)	
Prior year encumbrances appropriated	178,894	178,894	178,894	
Fund balance at end of year	<u>178,894</u>	<u>178,894</u>	<u>(\$142,883)</u>	<u>(\$142,883)</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, 2011**

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

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

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:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE A - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

Net Change in Fund Balance

	General Fund	Miscellaneous State Grant Fund	IDEA Part B Grants Fund	Drug Free School Grant Fund	Miscellaneous Federal Grants Fund
Budget basis	\$13,496	(\$73,778)	(\$37,365)	(\$99,538)	(\$116,284)
Net adjustment for revenue accruals	46,008	1,153	17,711	178,830	124,640
Net adjustment for expenditure accruals	91,465	(34,560)	(9,663)	(29,658)	1,369
Net adjustment for other sources/uses					11,557
Funds budgeted elsewhere	202				
Adjustment for encumbrances	24,336	375,374	15,050	9,617	95,936
GAAP basis	<u>\$175,507</u>	<u>\$268,189</u>	<u>(\$14,267)</u>	<u>\$59,251</u>	<u>\$117,218</u>

NOTE B - BUDGETARY PRIOR YEAR ADJUSTMENT

Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the General Fund on a budgetary basis. The ESC has elected to report only the legally budgeted General Fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the General Fund's budgetary-basis fund balance at June 30, 2010 is as follows:

Budgetary Basis

	<u>General Fund</u>
Fund balance at June 30, 2010	\$ 1,400,349
Funds budgeted elsewhere	(2,849)
Restated fund balance at July 1, 2010	<u>\$ 1,397,500</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDING JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass through Grantor</i>	Federal CFDA Number	Receipts	Disbursements
Program Title			
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Twenty-First Century Community Learning Centers	84.287	\$540,066	\$550,628
Family and Civic Engagement in Schools	84.287	572	2,224
Total Twenty-First Century Community Learning Centers		<u>540,638</u>	<u>552,852</u>
Adult Education - Basic Grants to States	84.002	41,200	44,260
Migrant Education - State Grant Program	84.011	228,952	224,084
<u>Special Education Cluster:</u>			
Special Education - Grants to States	84.027	1,079,334	1,101,650
Special Education - Preschool Grant	84.173	23,058	23,058
Total Special Education Cluster		<u>1,102,392</u>	<u>1,124,708</u>
<i>Passed Through Ohio Department of Health</i>			
Help Me Grow	84.181	37,154	32,606
ARRA - Help Me Grow	84.393A	27,470	25,857
Total Help Me Grow		<u>64,624</u>	<u>58,463</u>
<i>Direct Assistance</i>			
Safe and Drug-Free Schools and Communities	84.184	815,616	905,538
Fund for the Improvement of Education	84.215	34,000	34,888
Total United States Department of Education		<u>2,827,422</u>	<u>2,944,793</u>
UNITED STATES DEPARTMENT OF LABOR			
<i>Passed through Putnam County Job and Family Services</i>			
Workforce Investment Act - Youth Activities	17.269	48,605	49,101
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Direct Assistance</i>			
Drug Free Communities Support Program Grants	93.276	8,416	8,583
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Summer Food Service Program for Children	10.559	12,208	5,563
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety</i>			
State and Community Highway Safety	20.600	10,178	16,760
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$2,906,829</u></u>	<u><u>\$3,024,800</u></u>

The accompanying notes are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.



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, Ohio (the ESC) as of and for the year ended June 30, 2011, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 16, 2012 and wherein we noted the ESC adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 Standard*.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the ESC's financial statements will not be prevented, or detected and timely corrected.

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

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

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 certain matters not requiring inclusion in this report that we reported to the ESC's management in a separate letter dated March 16, 2012.

We intend this report solely for the information and use of management, the audit committee, the 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



Dave Yost
Auditor of State

March 16, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 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, Ohio (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 ESC's major federal programs for the year ended June 30, 2011. 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 opine on the ESC's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, the Educational Service Center 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, 2011.

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

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 requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 was not designed to 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 federal compliance not requiring inclusion in this report, that we reported to the ESC's management in a separate letter dated March 16, 2012.

We intend this report solely for the information and use of the audit committee, management, the 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 16, 2012

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Program:	<p>Twenty First Century Community Learning Center - Title IV Part B – Education State Grants CFDA # 84.287.</p> <p>Special Education Cluster: Special Education – Grants to States CFDA #84.027 Special Education – Preschool Grant CFDA #84.173</p>
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Material weakness due to errors on the financial statements.	No	Partially corrected and repeated in the management letter.

This page intentionally left blank.



Dave Yost • Auditor of State

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, 2012