



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
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	20
Notes to the Basic Financial Statements.....	21
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General 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

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
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
Corrective Action Plan.....	55



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, 2012, 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, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013, 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 analysis 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 relates 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 6, 2013

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The management's discussion and analysis of the Putnam County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- In total, net assets of governmental activities decreased \$418,267 which represents a 9.09% decrease from 2011.
- General revenues accounted for \$889,931 in revenue or 14.80% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,124,586 or 85.20% of total revenues of \$6,014,517.
- The ESC had \$6,432,784 in expenses related to governmental activities; \$5,124,586 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 \$889,931 were not adequate to provide for these programs.
- The ESC's major governmental funds are the General Fund, the IDEA Part B Grants Fund, the Drug Free School Grant Fund and the Miscellaneous Federal Grants Fund. The General Fund had \$2,849,400 in revenues and \$2,890,218 in expenditures. During fiscal year 2012, the General Fund's fund balance decreased \$40,818 from \$965,658 to \$924,840.
- The IDEA Part B Grants Fund had \$1,129,427 in revenues and \$1,091,904 in expenditures. During fiscal year 2012, the IDEA Part B Grants Fund's fund balance increased \$37,523 from a deficit fund balance of \$44,247 to a deficit balance of \$6,724.
- The Drug Free School Grant Fund had \$866,692 in revenues and \$868,394 in expenditures. During fiscal year 2012, the Drug Free School Grant Fund's fund balance decreased \$1,702 from \$19,982 to \$18,280.
- The Miscellaneous Federal Grants Fund had \$897,372 in revenues and \$793,982 in expenditures. During fiscal year 2012, the Miscellaneous Federal Grants Fund's fund balance increased \$103,390 from \$80,098 to \$183,488.

Using these Basic Financial Statements

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Fund, the Drug Free School 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 2012?" 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 IDEA Part B Grants Fund, the Drug Free School Grant Fund and the Miscellaneous Federal Grants Fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

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 2012 and 2011.

	Net Assets	
	Governmental Activities 2012	Governmental Activities 2011
<u>Assets</u>		
Current and other assets	\$1,952,424	\$2,424,606
Capital assets	3,939,490	3,982,419
Total assets	<u>5,891,914</u>	<u>6,407,025</u>
<u>Liabilities</u>		
Current liabilities	640,454	661,724
Long-term liabilities	1,058,060	1,133,634
Total liabilities	<u>1,698,514</u>	<u>1,795,358</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,344,929	3,327,871
Restricted	379,951	802,257
Unrestricted	468,520	481,539
Total net assets	<u><u>\$4,193,400</u></u>	<u><u>\$4,611,667</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the ESC's assets exceeded liabilities by \$4,193,400.

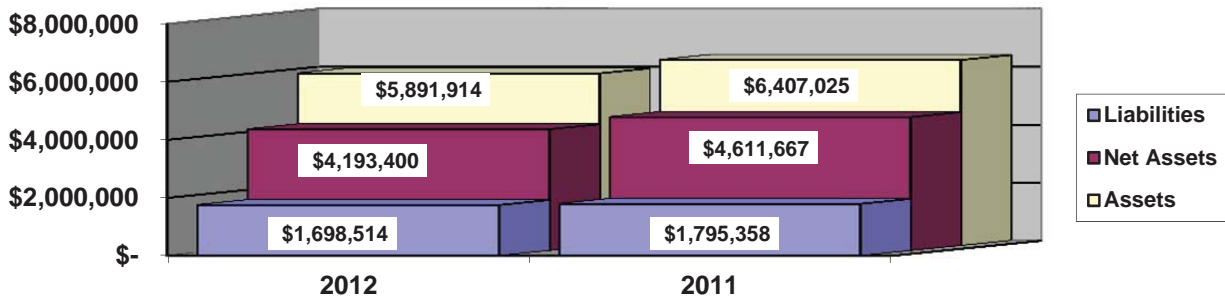
At year-end, capital assets represented 66.86% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$3,344,929. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$379,951, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$468,520 may be used to meet the ESC's ongoing obligations to the students and creditors.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal year 2012 and 2011.

Change in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$1,952,946	\$2,232,922
Operating grants and contributions	3,171,640	3,774,082
General revenues:		
Grants and entitlements	748,258	794,632
Investment earnings	9,760	5,839
Other	131,913	57,772
Total revenues	6,014,517	6,865,247

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

<u>Expenses</u>	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
Program expenses:		
Instruction:		
Regular	\$718,069	\$889,054
Special	1,085,102	959,903
Adult/continuing	29,825	28,978
Other	142	80
Support services:		
Pupil	860,063	1,005,773
Instructional staff	1,399,767	1,616,630
Board of education	30,005	28,369
Administration	358,556	273,107
Fiscal	333,828	285,499
Business	13,629	13,793
Operations and maintenance	85,824	98,584
Pupil transportation	105,069	97,058
Central	249,603	24,091
Operation of non-instructional services:		
Other non-instructional services	40,669	24,008
Intergovernmental pass-through	1,091,904	1,111,311
Interest and fiscal charges	30,729	29,945
Total expenses	<u>6,432,784</u>	<u>6,486,183</u>
Change in net assets	(418,267)	379,064
Net assets at beginning of year	<u>4,611,667</u>	<u>4,232,603</u>
Net assets at end of year	<u><u>\$4,193,400</u></u>	<u><u>\$4,611,667</u></u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$418,267. Total governmental expenses of \$6,432,784 were offset by program revenues of \$5,124,586 and general revenues of \$889,931. Program revenues supported 79.66% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from operating grants and contributions. These revenue sources represent 52.73% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$3,436,344 or 53.42% of total governmental expenses for fiscal year 2012.

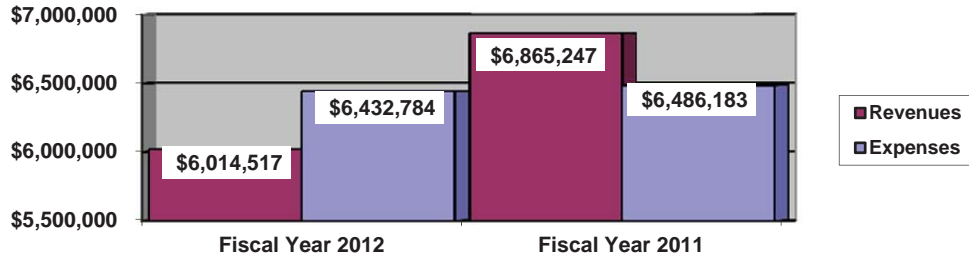
Operating grants and contributions and expenses related to regular instruction decreased due the ESC receiving only \$77,131 in STEM grants during fiscal year 2012 compared to \$694,179 in fiscal year 2011.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2012 and 2011.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Program expenses				
Instruction:				
Regular	\$718,069	\$296,570	\$889,054	(\$318,104)
Special	1,085,102	(814,792)	959,903	(1,222,853)
Adult/continuing	29,825	(969)	28,978	2,011
Other	142	142	80	80
Support services:				
Pupil	860,063	528,059	1,005,773	694,160
Instructional staff	1,399,767	713,807	1,616,630	933,845
Board of education	30,005	30,005	28,369	28,369
Administration	358,556	222,689	273,107	185,110
Fiscal	333,828	214,476	285,499	276,837
Business	13,629	(41,081)	13,793	3,331
Operations and maintenance	85,824	85,254	98,584	(115,063)
Pupil transportation	105,069	30,641	97,058	1,570
Central	249,603	(18,795)	24,091	7,259
Operation of non-instructional services:				
Other	40,669	10,294	24,008	1,347
Inergovernmental pass-through	1,091,904	21,169	1,111,311	(28,665)
Interest and fiscal charges	30,729	30,729	29,945	29,945
Total expenses	\$6,432,784	\$1,308,198	\$6,486,183	\$479,179

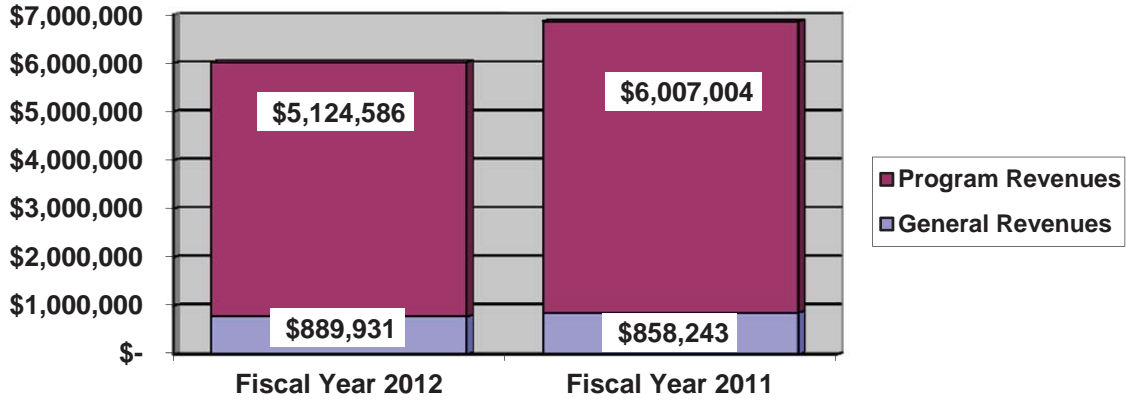
The dependence upon program revenues for governmental activities is apparent; program revenue support is 79.66%. The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The graph below presents the ESC's governmental activities revenue for fiscal year 2012 and 2011.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,215,649, which is lower than last year's total of \$1,437,640. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance (Deficit) June 30, 2012	Fund Balance (Deficit) June 30, 2011	Increase (Decrease)	Percentage Change
General	\$924,840	\$965,658	(\$40,818)	(4.23) %
IDEA Part B Grant	(6,724)	(44,247)	37,523	84.80 %
Drug Free Schools	18,280	19,982	(1,702)	(8.52) %
Miscellaneous Federal Grants	183,488	80,098	103,390	129.08 %
Other Governmental	95,765	416,149	(320,384)	(76.99) %
Total	\$1,215,649	\$1,437,640	(\$221,991)	(15.44) %

General Fund

The ESC's General Fund balance decreased by \$40,818. The decrease in fund balance can be attributed to an increase in expenditures related to debt service. These expenses increased during the current fiscal year because the ESC paid an old capital lease in full. Expenditures exceed revenues for fiscal year 2012 by \$40,818. Revenues related to contract services increased due to an increase in services provided to other entities. Revenues related to tuition decreased due to a decrease in revenues received from local schools.

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, 2012
UNAUDITED
(Continued)**

	2012 Amount	2011 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Tuition	\$1,853,583	\$2,002,605	(\$149,022)	(7.44) %
Contract Services	58,302	130,956	(72,654)	(55.48) %
Earnings on investments	10,303	6,488	3,815	58.80 %
Intergovernmental	748,258	794,632	(46,374)	(5.84) %
Other revenues	178,954	157,133	21,821	13.89 %
Total	<u>\$2,849,400</u>	<u>\$3,091,814</u>	<u>(\$242,414)</u>	(7.84) %
<u>Expenditures</u>				
Instruction	\$800,720	\$798,322	\$2,398	0.30 %
Support services	1,992,704	2,093,070	(100,366)	(4.80) %
Non-instructional services	7,056	7,056	7,056	100.00 %
Debt service	89,738	58,513	31,225	53.36 %
Total	<u>\$2,890,218</u>	<u>\$2,949,905</u>	<u>(\$59,687)</u>	(2.02) %

IDEA Part B Grants Fund

The IDEA Part B Grants Fund had \$1,129,427 in revenues and \$1,091,904 in expenditures. During fiscal year 2012, the IDEA Part B Grants Fund's fund balance increased \$37,523 from a deficit fund balance of \$44,247 to a deficit balance of \$6,724.

Drug Free School Grant Fund

The Drug Free School Grant Fund had \$866,692 in revenues and \$868,394 in expenditures. During fiscal year 2012, the Drug Free School Grant Fund's fund balance decreased \$1,702 from \$19,982 to \$18,280.

Miscellaneous Federal Grants Fund

The Miscellaneous Federal Grants Fund had \$897,372 in revenues and \$793,982 in expenditures. During fiscal year 2012, the Miscellaneous Federal Grants Fund's fund balance increased \$103,390 from \$80,098 to \$183,488.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the ESC had \$3,939,490 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 2012 balances compared to 2011:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

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

	Governmental Activities	
	2012	2011
Land	\$156,000	\$156,000
Building and improvements	3,381,819	3,569,679
Furniture and equipment	397,622	250,482
Vehicles	4,049	6,258
Total	\$3,939,490	\$3,982,419

The overall decrease in capital assets is due to depreciation expense of \$151,411 and disposals of \$161,129 (net of accumulated depreciation) exceeding additions of \$269,611 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, 2012, the ESC had \$592,711 in capital lease obligations outstanding. Of this total, \$33,080 is due within one year and \$559,631 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2012	2011
Capital lease obligations	\$592,711	\$654,548

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

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

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

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Michael Siebeneck, Treasurer, Putnam County ESC, 124 Putnam Parkway, Ottawa, Ohio 45875-8657.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,440,713
Receivables:	
Accounts	2,854
Intergovernmental	507,900
Accrued interest	957
Capital assets:	
Land	156,000
Depreciable capital assets, net	3,783,490
Capital assets, net	3,939,490
 Total assets	 \$5,891,914
 Liabilities:	
Accrued wages and benefits	538,932
Pension obligation payable	83,026
Intergovernmental payable	16,567
Accrued interest payable	1,929
Long-term liabilities:	
Due within one year	139,809
Due in more than one year	918,251
 Total liabilities	 1,698,514
 Net Assets:	
Invested in capital assets, net of related debt	3,344,929
Restricted for:	
Locally funded programs	3,206
State funded programs	1,718
Federally funded programs	375,027
Unrestricted	468,520
 Total net assets	 \$4,193,400

See accompanying notes to the basic financial statements

EDUCATIONAL SERVICE CENTER
 PUTNAM COUNTY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2012

	General	IDEA Part B Grants	Drug Free School Grant	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in pooled cash and cash equivalents	\$1,336,644			\$74,460	\$29,609	\$1,440,713
Receivables:						
Accounts	2,854					2,854
Intergovernmental	7,477	\$63,542	\$149,507	166,602	120,772	507,900
Accrued interest	957					957
Interfund receivable	147,774					147,774
Total assets	<u>\$1,495,706</u>	<u>\$63,542</u>	<u>\$149,507</u>	<u>\$241,062</u>	<u>\$150,381</u>	<u>\$2,100,198</u>
Liabilities:						
Accrued wages and benefits	483,535	13,444	34,549		7,404	538,932
Pension obligation payable	73,944		5,973		3,109	83,026
Intergovernmental payable	12,430	1,647	1,253	631	606	16,567
Interfund payable	86,880	38,880	86,452		22,442	147,774
Deferred revenue	957	16,295	3,000	56,943	21,055	98,250
Total liabilities	<u>570,866</u>	<u>70,266</u>	<u>131,227</u>	<u>57,574</u>	<u>54,616</u>	<u>884,549</u>
Fund Balances:						
Restricted:						
Adult education					1,718	1,718
Migrant program					106,865	106,865
Other purposes			18,280	183,488	3,206	204,974
Assigned:						
Student instruction	1,623					1,623
Student and staff support	29,058					29,058
Unassigned (deficit)	894,159	(6,724)			(16,024)	871,411
Total fund balances (deficit)	<u>924,840</u>	<u>(6,724)</u>	<u>18,280</u>	<u>183,488</u>	<u>95,765</u>	<u>1,215,649</u>
Total liabilities and fund balances	<u>\$1,495,706</u>	<u>\$63,542</u>	<u>\$149,507</u>	<u>\$241,062</u>	<u>\$150,381</u>	<u>\$2,100,198</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, 2012

Total governmental fund balances			\$1,215,649
<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.			3,939,490
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accrued interest receivable		\$957	
Intergovernmental receivable		97,293	
Total		<u>97,293</u>	98,250
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		(592,711)	
Compensated absences		(465,349)	
Accrued interest payable		(1,929)	
Total		<u>(1,059,989)</u>	<u>(1,059,989)</u>
Net assets of governmental activities			<u><u>\$4,193,400</u></u>

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, 2012

	General	IDEA Part B Grants	Drug Free School Grant	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Tuition	\$1,853,583					\$1,853,583
Earnings on investments	10,303					10,303
Rental income	41,061					41,061
Contract services	58,302					58,302
Other local revenues	137,893					137,893
Intergovernmental - intermediate	24,000				\$2,994	26,994
Intergovernmental - state	724,258			\$897,372	278,782	1,003,040
Intergovernmental - federal		\$1,129,427			224,983	3,118,474
Total revenues	2,849,400	1,129,427	866,692	897,372	506,759	6,249,650
Expenditures:						
Current:						
Instruction:						
Regular	20,531					20,531
Special	780,047		66,588	228,169	396,939	1,465,733
Adult/continuing					29,825	29,825
Other	142					142
Support Services:						
Pupil	559,402		215,681	81,003	55,167	911,253
Instructional staff	869,375		425,151	133,743	117,776	1,546,045
Board of education	30,005					30,005
Administration	218,115		91,681	35,296	11,145	356,237
Fiscal	266,124		32,791	19,279	12,543	330,737
Business			13,629			13,629
Operations and maintenance	39,819				1,323	41,142
Pupil transportation	7,155		11,107	39,134	47,673	105,069
Central	2,709		11,766	233,328	1,800	249,603
Other non-instructional services	7,056			24,030	9,583	40,669
Intergovernmental pass-through		1,091,904				1,091,904
Debt service:						
Principal retirement	61,837					61,837
Interest and fiscal charges	27,901					27,901
Total expenditures	2,890,218	1,091,904	868,394	793,982	827,143	6,471,641
Net change in fund balances	(40,818)	37,523	(1,702)	103,390	(320,384)	(221,991)
Fund balances at beginning of year (deficit)	965,658	(44,247)	19,982	80,098	416,149	1,437,640
Fund balances at end of year (deficit)	\$924,840	(\$6,724)	\$18,280	\$183,488	\$95,765	\$1,215,649

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, 2012**

Net change in fund balances - total governmental funds		(\$221,991)
<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	\$269,611	
Current year depreciation	(151,411)	
Total		118,200
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(161,129)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Accrued interest	(543)	
Intergovernmental	(228,610)	
Total		(229,153)
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.		
		61,837
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.		
		232
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.		
		13,737
Change in net assets of governmental activities		(\$418,267)

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
 PUTNAM COUNTY
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2012**

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$130,362
Receivables:	
Intergovernmental	15,495
Total assets	\$145,857
 Liabilities:	
Accrued wages and benefits	1,478
Pension obligation payable	1,973
Intergovernmental payable	208
Due to other governments	142,198
Total liabilities	\$145,857

See accompanying notes to the basic financial statements

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust</u>
Additions:	
Gifts and contributions	<u>\$500</u>
Deductions:	
Scholarships awarded	<u><u>\$500</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, 2012**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The Governing Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policies and procedures, and approves all financial activities. The ESC is staffed by 45 certified employees (including administrative) and 53 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, 2012
(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:

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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's private purpose trust fund accounts for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency fund accounts for monies held for other governmental entities.

C. Basis of Presentation and Measurement Focus

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

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012, 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 2012 amounted to \$10,303, which includes \$1,068 assigned from other funds.

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

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

F. Capital Assets

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012, the ESC maintained its capitalization threshold at \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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

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

G. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the statement of net assets. As of June 30, 2012, the ESC had \$147,774 of interfund receivables in the General Fund and payable from major and nonmajor governmental funds.

H. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2012, 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, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the ESC has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the ESC.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Major fund:</u>	<u>Deficit</u>
IDEA Part-B grants	<u>\$6,724</u>
 <u>Nonmajor funds:</u>	
Public school preschool	15,858
Alternative schools	98
Miscellaneous state grants	67
IDEA preschool-handicapped	1

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all ESC deposits was \$1,571,075. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$789,983 of the ESC's bank balance of \$1,668,162 was covered by the FDIC, while \$878,179 was exposed to custodial risk as discussed below.

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

B. Reconciliation of Cash and Investments to the Statement of Net 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, 2012:

<u>Cash and investments per note disclosure:</u>	
Carrying amount of deposits	<u><u>\$1,571,075</u></u>
<u>Cash and investments per statement of net assets:</u>	
Governmental activities	\$1,440,713
Agency funds	<u>130,362</u>
Total	<u><u>\$1,571,075</u></u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2012 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	\$38,880
General	Drug free schools grant	86,452
General	Nonmajor governmental funds	<u>22,442</u>
Total		<u><u>\$147,774</u></u>

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

Interfund balances between governmental funds are eliminated on the Statement of Net Assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2012 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:

<u>Governmental activities:</u>	
Accounts	\$2,854
Intergovernmental	507,900
Accrued interest	<u>957</u>
Total	<u><u>\$511,711</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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities:</u>	Balance 07/01/11	Additions	Deductions	Balance 06/30/12
<i>Capital assets, not being depreciated:</i>				
Land	\$156,000			\$156,000
<i>Total capital assets, not being depreciated</i>	<u>156,000</u>			<u>156,000</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	3,938,690		(\$338,690)	3,600,000
Equipment and furniture	674,697	\$269,611	(119,747)	824,561
Vehicles	22,087			22,087
<i>Total capital assets, being depreciated</i>	<u>4,635,474</u>	<u>269,611</u>	<u>(458,437)</u>	<u>4,446,648</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(369,011)	(53,298)	204,128	(218,181)
Equipment and furniture	(424,215)	(95,904)	93,180	(426,939)
Vehicles	(15,829)	(2,209)		(18,038)
<i>Total accumulated depreciation</i>	<u>(809,055)</u>	<u>(151,411)</u>	<u>297,308</u>	<u>(663,158)</u>
Governmental activities capital assets, net	<u>\$3,982,419</u>	<u>\$118,200</u>	<u>(\$161,129)</u>	<u>\$3,939,490</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$1,454
Special	17,363
<u>Support services:</u>	
Pupil	1,509
Instructional staff	64,808
Administration	263
Fiscal	1,067
Operations and maintenance	<u>64,947</u>
Total depreciation expense	<u>\$151,411</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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

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 2012, principal payments equaled \$61,837 and interest payments equaled \$27,901. 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, 2012:

Fiscal Year Ending June 30,	Payments
2013	\$58,513
2014	58,513
2015	58,513
2016	58,513
2017	58,513
2018 - 2022	292,565
2023 - 2026	204,795
Total future minimum lease payments	789,925
Less: amount representing interest	(197,214)
Present value of future minimum lease payments	\$592,711

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance 07/01/11	Increases	Decreases	Balance 06/30/12	Amount Due Within One Year
<u>Governmental activities:</u>					
Capital lease obligation	\$654,548		(\$61,837)	\$592,711	\$33,080
Compensated absences	479,086	\$123,192	(136,929)	465,349	106,729
Total long-term obligations	\$1,133,634	\$123,192	(\$198,766)	\$1,058,060	\$139,809

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 10 - RISK MANAGEMENT

A. Risk Pool Membership

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

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

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

The ESC paid \$6,929 in premiums to the pool for fiscal year 2012 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 2012, 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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

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

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$120,383, \$118,245 and \$130,919, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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”.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 11 - PENSION PLANS (Continued)

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

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

Funding Policy - For fiscal year 2012, 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, 2012, 2011 and 2010 were \$327,775, \$341,454 and \$351,376, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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, 2012, three members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 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 2012, 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, 2012, 2011 and 2010 were \$24,534, \$34,439 and \$23,359, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$7,109, \$7,609 and \$7,785, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, 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 2012, 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, 2012, 2011 and 2010 were \$25,213, \$26,266 and \$27,029, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

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

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)

NOTE 14 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$30,681
IDEA Part B Grants	1,876
Drug Free School Grant	16,424
Miscellaneous Federal Grants	163,472
Other governmental	83,435
Total	<u><u>\$295,888</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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$1,918,184	\$1,918,184	\$1,854,443	(\$63,741)
Earnings on investments	6,500	6,500	10,303	3,803
Rental income	37,000	37,000	39,411	2,411
Contract services	143,650	25,920	105,439	79,519
Other local revenues	9,200	126,930	138,073	11,143
Intergovernmental - intermediate	30,000	30,000	16,523	(13,477)
Intergovernmental - state	785,541	785,541	724,258	(61,283)
Total revenues	<u>2,930,075</u>	<u>2,930,075</u>	<u>2,888,450</u>	<u>(41,625)</u>
Expenditures:				
Current:				
Instruction:				
Regular	53,055	53,055	20,022	33,033
Special	947,807	947,807	776,421	171,386
Other			139	(139)
Support services:				
Pupil	721,664	721,664	549,930	171,734
Instructional staff	1,311,063	1,311,063	892,847	418,216
Board of education	55,100	55,100	30,011	25,089
Administration	309,710	309,710	212,918	96,792
Fiscal	300,277	300,277	270,002	30,275
Operations and maintenance	233,098	233,098	131,416	101,682
Pupil transportation	20,000	20,000	7,155	12,845
Central	5,000	5,000	2,709	2,291
Operation of non-instructional services	34,039	34,039	7,056	26,983
Total expenditures	<u>3,990,813</u>	<u>3,990,813</u>	<u>2,900,626</u>	<u>1,090,187</u>
Excess of expenditures over revenues	<u>(1,060,738)</u>	<u>(1,060,738)</u>	<u>(12,176)</u>	<u>1,048,562</u>
Other financing uses:				
Refund of prior year's receipts			(67)	(67)
Net change in fund balance	(1,060,738)	(1,060,738)	(12,243)	1,048,495
Fund balance at beginning of year	1,438,918	1,438,918	1,438,918	
Prior year encumbrances appropriated	24,336	24,336	24,336	
Fund balance at end of year	<u>\$402,516</u>	<u>\$402,516</u>	<u>\$1,451,011</u>	<u>\$1,048,495</u>

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
IDEA PART B GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental - federal	\$1,163,432	\$1,163,432	\$1,099,891	(\$63,541)
Expenditures:				
Current:				
Instruction:				
Special	565,464	565,464	565,464	
Support Services:				
Pupil	319,323	319,323	319,323	
Instructional staff	168,933	168,933	152,913	16,020
Fiscal	48,290	48,290	41,525	6,765
Operation of non-instructional services	14,523	14,523	14,523	
Total expenditures	1,116,533	1,116,533	1,093,748	22,785
Net change in fund balance	46,899	46,899	6,143	(40,756)
Fund balance at beginning of year	(61,949)	(61,949)	(61,949)	
Prior year encumbrances appropriated	\$15,050	\$15,050	15,050	
Fund balance at end of year			(\$40,756)	(\$40,756)

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - federal	\$759,106	\$1,595,769	\$899,015	(\$696,754)
Expenditures:				
Current:				
Instruction:				
Regular	79,093	181,932	67,560	114,372
Support Services:				
Pupil	105,537	242,756	222,038	20,718
Instructional staff	326,703	751,483	433,476	318,007
Administration	51,889	119,354	90,612	28,742
Fiscal	39,619	91,132	32,791	58,341
Business	8,217	18,900	16,919	1,981
Pupil transportation	18,716	43,050	11,107	31,943
Central	13,714	31,544	11,770	19,774
Total expenditures	<u>643,488</u>	<u>1,480,151</u>	<u>886,273</u>	<u>593,878</u>
Net change in fund balance	115,618	115,618	12,742	(102,876)
Fund balance at beginning of year	(125,235)	(125,235)	(125,235)	
Prior year encumbrances appropriated	\$9,617	\$9,617	9,617	
Fund balance at end of year	<u><u> </u></u>	<u><u> </u></u>	<u><u>(\$102,876)</u></u>	<u><u>(\$102,876)</u></u>

See accompanying notes to the basic financial statements

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS FEDERAL GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - federal	\$995,215	\$1,568,269	\$915,265	(\$653,004)
Expenditures:				
Current:				
Instruction:				
Regular	163,488	264,469	248,554	15,915
Support Services:				
Pupil	60,966	98,624	83,974	14,650
Instructional staff	111,550	180,453	162,427	18,026
Administration	24,348	39,388	35,217	4,171
Fiscal	33,938	54,901	19,279	35,622
Pupil transportation	26,322	42,581	40,551	2,030
Central	210,464	340,464	340,482	(18)
Operation of non-instructional services	14,526	23,498	26,846	(3,348)
Total expenditures	<u>645,602</u>	<u>1,044,378</u>	<u>957,330</u>	<u>87,048</u>
Net change in fund balance	349,613	523,891	(42,065)	(565,956)
Fund balance at beginning of year	(142,883)	(142,883)	(142,883)	
Prior year encumbrances appropriated	95,936	95,936	95,936	
Fund balance at end of year	<u>\$302,666</u>	<u>\$476,944</u>	<u>(\$89,012)</u>	<u>(\$565,956)</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, 2012**

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, 2012
(Continued)**

Net Change in Fund Balance

	General Fund	IDEA Part B Grants Fund	Drug Free School Grant Fund	Miscellaneous Federal Grants Fund
Budget basis	(\$12,243)	\$6,143	\$12,742	(\$42,065)
Net adjustment for revenue accruals	(39,050)	29,536	(32,323)	(17,893)
Net adjustment for expenditure accruals	(19,948)	(32)	1,455	(124)
Net adjustment for other sources/uses	67			
Funds budgeted elsewhere	(325)			
Adjustment for encumbrances	30,681	1,876	16,424	163,472
GAAP basis	<u>(\$40,818)</u>	<u>\$37,523</u>	<u>(\$1,702)</u>	<u>\$103,390</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR	Federal		
<i>Pass through Grantor</i>	CFDA		
Program Title	Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Twenty-First Century Community Learning Centers	84.287	\$438,604	\$457,222
Family and Civic Engagement in Schools	84.287	11,680	11,584
Total Twenty-First Century Community Learning Centers		<u>450,284</u>	<u>468,806</u>
Adult Education - Basic Grants to States	84.002	31,226	45,762
Migrant Education - State Grant Program	84.011	192,344	212,101
Safe and Drug-Free Schools and Communities - State Programs	84.186	10,000	10,061
<u>Special Education Cluster:</u>			
Special Education - Preschool Grant	84.173	22,089	22,089
Special Education - Grants to States	84.027	938,445	940,835
<i>Passed Through State Education Resource Center</i>			
Special Education - Grants to States	84.027	161,445	151,037
Total Special Education - Grants to States		<u>1,099,890</u>	<u>1,091,872</u>
Total Special Education Cluster		1,121,979	1,113,961
<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>Passed Through Ohio Board of Regents</i>			
College Access Challenge Grant Program	84.378A	400,000	266,454
<i>Direct Assistance</i>			
Safe and Drug-Free Schools and Communities - National Programs	84.184	889,015	859,788
Total United States Department of Education		<u>3,159,472</u>	<u>3,035,396</u>
UNITED STATES DEPARTMENT OF LABOR			
<i>Passed through Putnam County Job and Family Services</i>			
Workforce Investment Act - Youth Activities	17.259	37,103	35,785
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Summer Food Service Program for Children	10.559	14,054	
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety</i>			
State and Community Highway Safety	20.600	<u>27,878</u>	<u>22,812</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$3,238,507</u></u>	<u><u>\$3,093,993</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, 2012**

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, 2012, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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.

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 6, 2013.

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

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

Dave Yost
Auditor of State

March 6, 2013



Dave Yost • Auditor of State

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center, Putnam County, 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, 2012. 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.

As described in finding 2012-001 in the accompanying schedule of findings, the ESC did not comply with requirements regarding cash management applicable to its College Access Challenge Grant major federal program. Compliance with this requirement is necessary, in our opinion, for the ESC to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2012.

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 expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the ESC's internal control over compliance.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-001 to be a material weakness. We also 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 6, 2013.

The ESC's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the ESC's response and, accordingly, we express no opinion on it.

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 6, 2013

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

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?	Yes
(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	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Program:	<p>Twenty First Century Community Learning Centers CFDA # 84.287</p> <p>Special Education Cluster: Special Education – Grants to States CFDA #84.027</p> <p>Special Education – Preschool Grant CFDA #84.173</p> <p>College Access Challenge Grant Program CFDA #84 378A</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 FOR FEDERAL AWARDS

Finding Number	2012-001
CFDA Title and Number	College Access Challenge Grant Program CFDA #84 378A
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Board of Regents

Noncompliance Citation/Material Weakness

34 CFR 80.20 (b)(7) states in part, when advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. This has been interpreted as being spent within 30 days.

None of the grant monies received by electronic transfer for the College Access Challenge Grant Program (Fund 599) were spent within 30 days of receipt during fiscal year 2012. By not expending advanced funds timely, the ESC risks the potential loss or decrease in federal funding.

We recommend improvements be made in the procedures for minimizing the time elapsing between the transfer of funds from the US Treasury and disbursement by the ESC whenever the advance payment procedure is used.

Officials' Response:

Initially the Putnam County Educational Service Center was informed that this grant was a reimbursable grant and we had plans in place to request reimbursement monthly for expenses incurred. After we started the grant we were instructed by the Ohio College Access Network (OCAN) that we needed to invoice specific amounts on specific dates even though funds were not spent. OCAN personnel were aware that the funds were not spent prior to the requests, but they directed us this is the way we needed to handle disbursements, and they were the lead agency we reported to for the grant.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	This was an oversight on my part since it was the first year for the reporting of this grant. The grant has since ended.	Immediate	Michael Siebeneck, Treasurer

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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 21, 2013