



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Putnam County Educational Service Center (the ESC) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the ESC's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Putnam County Educational Service Center, as of June 30, 2002, and the results of its operations 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 December 4, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the ESC taken as whole. The accompanying schedule of federal awards receipts and expenditures is presented for purpose of additional analysis as required by U.S Office of Management and Budget Circular A-133, *Audits of States Local Governments and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general- purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 4, 2002

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets:			
Equity in pooled cash and cash equivalents	\$1,758,411	\$137,196	\$1,000
Receivables (net of allowances of uncollectibles):			
Accounts	75		
Accrued interest	5,103		
Interfund loan receivable	24,887		
Due from other governments	12,177	281,339	
Property, plant and equipment (net of accumulated depreciation where applicable)			
Other debits:			
Amount to be provided for retirement of general long-term obligations			
Total assets and other debits	\$1,800,653	\$418,535	\$1,000
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts payable	\$120	\$105	
Accrued wages and benefits	390,514	12,517	
Compensated absences payable	30,481	1,179	
Pension obligation payable	49,083	1,568	
Interfund loan payable		24,887	
Deferred revenue		173,281	
Due to other governments	11,901	1,544	
Capital lease obligation payable			
Total liabilities	482,099	215,081	
Equity and other credits:			
Investment in general fixed assets			
Fund balances:			
Reserved for encumbrances	36,121	32,321	
Unreserved-undesignated	1,282,433	171,133	\$1,000
Total equity and other credits	1,318,554	203,454	1,000
Total liabilities, equity and other credits	\$1,800,653	\$418,535	\$1,000

The notes to the general-purpose financial statements are an integral part of this statement.

Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$29,105			\$1,925,712
			75
			5,103
			24,887
			293,516
	\$1,549,711		1,549,711
		\$525,754	525,754
\$29,105	\$1,549,711	\$525,754	\$4,324,758
			\$225
			403,031
		\$352,928	384,588
		5,763	56,414
			24,887
			173,281
\$29,105			42,550
		167,063	167,063
29,105		525,754	1,252,039
	\$1,549,711		1,549,711
			68,442
			1,454,566
	1,549,711		3,072,719
\$29,105	\$1,549,711	\$525,754	\$4,324,758

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Governmental Fund Types</u>			Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Revenues:				
From local sources:				
Tuition	\$91,303			\$91,303
Contract services	2,092,064			2,092,064
Earnings on investments	94,448			94,448
Other local revenues	348,743	\$53		348,796
Other revenue		627		627
Intergovernmental - Local	80,000			80,000
Intergovernmental - State	959,559	642,420	\$3,297	1,605,276
Intergovernmental - Federal	101,715	1,099,157		1,200,872
	<u>3,767,832</u>	<u>1,742,257</u>	<u>3,297</u>	<u>5,513,386</u>
Total revenues	<u>3,767,832</u>	<u>1,742,257</u>	<u>3,297</u>	<u>5,513,386</u>
Expenditures:				
Current:				
Instruction:				
Regular	159,585	352,377		511,962
Special	1,051,843	44,040		1,095,883
Support services:				
Pupil	878,892	146,723		1,025,615
Instructional staff	1,359,314	596,210		1,955,524
Board of Education	26,312			26,312
Administration	154,644	35,403		190,047
Fiscal	109,590	60,928		170,518
Operations and maintenance	303	63,043		63,346
Pupil transportation		10,673		10,673
Central	2,425	2,960	2,297	7,682
Community services		11,269		11,269
Capital outlay	21,335	141,432		162,767
Intergovernmental pass-through		513,135		513,135
Debt service:				
Principal retirement	16,400	17,398		33,798
Interest and fiscal charges	2,981	5,366		8,347
	<u>3,783,624</u>	<u>2,000,957</u>	<u>2,297</u>	<u>5,786,878</u>
Excess of revenues over (under) expenditures	<u>(15,792)</u>	<u>(258,700)</u>	<u>1,000</u>	<u>(273,492)</u>
Other financing sources:				
Proceeds of capital lease transaction	29,860	141,432		171,292
Excess of revenues and other financing sources over (under) expenditures	14,068	(117,268)	1,000	(102,200)
Fund balances, July 1	1,304,486	320,722		1,625,208
Fund balances, June 30	<u>\$1,318,554</u>	<u>\$203,454</u>	<u>\$1,000</u>	<u>\$1,523,008</u>

The notes to the general-purpose financial statements are an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Tuition	\$25,945	\$103,232	\$77,287
Contract services	970,533	2,079,887	1,109,354
Earnings on investments	70,000	100,027	30,027
Other local revenues	201,105	348,743	147,638
Other revenue			
Intergovernmental - Local		80,000	80,000
Intergovernmental - State	1,706,537	959,558	(746,979)
Intergovernmental - Federal	40,000	101,715	61,715
Total revenues	<u>3,014,120</u>	<u>3,773,162</u>	<u>759,042</u>
Expenditures:			
Current:			
Instruction:			
Regular	186,725	174,922	11,803
Special	1,126,859	1,026,352	100,507
Support services:			
Pupil	1,005,537	871,638	133,899
Instructional staff	1,784,187	1,339,484	444,703
Board of Education	51,885	33,400	18,485
Administration	336,515	169,423	167,092
Fiscal	154,904	110,396	44,508
Operations and maintenance	49,939	11,790	38,149
Pupil transportation			
Central	3,000	2,425	575
Community services	1,000		1,000
Total expenditures	<u>4,700,551</u>	<u>3,739,830</u>	<u>960,721</u>
Excess of revenues over (under) expenditures	<u>(1,686,431)</u>	<u>33,332</u>	<u>1,719,763</u>
Other financing sources (uses):			
Advances in	45,333	45,333	
Advances out	(30,000)	(24,887)	5,113
Transfers in		9,851	9,851
Transfers out	(9,851)	(9,851)	
Refund of prior year expenditures			
Refund of prior year receipts	(800)	(767)	33
Total other financing sources (uses)	<u>4,682</u>	<u>19,679</u>	<u>14,997</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(1,681,749)</u>	<u>53,011</u>	<u>1,734,760</u>
Fund balances, July 1	1,647,358	1,647,358	
Prior year encumbrances appropriated	19,445	19,445	
Fund balances, June 30	<u>(\$14,946)</u>	<u>\$1,719,814</u>	<u>\$1,734,760</u>

(Continued)

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

	Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Tuition			
Contract services			
Earnings on investments			
Other local revenues			
Other revenue	\$627	\$627	
Intergovernmental - Local			
Intergovernmental - State	1,229,904	642,419	(\$587,485)
Intergovernmental - Federal	1,415,539	1,180,638	(234,901)
Total revenues	<u>2,646,070</u>	<u>1,823,684</u>	<u>(822,386)</u>
Expenditures:			
Current:			
Instruction:			
Regular	669,414	361,140	308,274
Special	542,669	469,931	72,738
Support services:			
Pupil	284,625	158,290	126,335
Instructional staff	963,439	699,436	264,003
Board of Education			
Administration	63,502	37,735	25,767
Fiscal	105,054	68,475	36,579
Operations and maintenance	126,831	79,681	47,150
Pupil transportation	25,117	10,675	14,442
Central	3,142	3,062	80
Community services	19,572	12,670	6,902
Total expenditures	<u>2,803,365</u>	<u>1,901,095</u>	<u>902,270</u>
Excess of revenues over (under) expenditures	<u>(157,295)</u>	<u>(77,411)</u>	<u>79,884</u>
Other financing sources (uses):			
Advances in		24,887	24,887
Advances out		(45,333)	(45,333)
Transfers in			
Transfers out			
Refund of prior year expenditures		53	53
Refund of prior year receipts			
Total other financing sources (uses)		<u>(20,393)</u>	<u>(20,393)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(157,295)</u>	<u>(97,804)</u>	<u>59,491</u>
Fund balances, July 1	132,693	132,693	
Prior year encumbrances appropriated	69,881	69,881	
Fund balances, June 30	<u>\$45,279</u>	<u>\$104,770</u>	<u>\$59,491</u>

The notes to the general-purpose financial statements are an integral part of this statement.

Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$25,945	\$103,232	\$77,287
			970,533	2,079,887	1,109,354
			70,000	100,027	30,027
			201,105	348,743	147,638
			627	627	
				80,000	80,000
\$3,297	\$3,297		2,939,738	1,605,274	(1,334,464)
			1,455,539	1,282,353	(173,186)
3,297	3,297		5,663,487	5,600,143	(63,344)
			856,139	536,062	320,077
			1,669,528	1,496,283	173,245
			1,290,162	1,029,928	260,234
			2,747,626	2,038,920	708,706
			51,885	33,400	18,485
			400,017	207,158	192,859
			259,958	178,871	81,087
			176,770	91,471	85,299
			25,117	10,675	14,442
3,297	2,297	\$1,000	9,439	7,784	1,655
			20,572	12,670	7,902
3,297	2,297	1,000	7,507,213	5,643,222	1,863,991
	1,000	1,000	(1,843,726)	(43,079)	1,800,647
			45,333	70,220	24,887
			(30,000)	(70,220)	(40,220)
				9,851	9,851
			(9,851)	(9,851)	
				53	53
			(800)	(767)	33
			4,682	(714)	(5,396)
	1,000	1,000	(1,839,044)	(43,793)	1,795,251
			1,780,051	1,780,051	
			89,326	89,326	
	\$1,000	\$1,000	\$30,333	\$1,825,584	\$1,795,251

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 - DESCRIPTION OF THE ENTITY

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

The Governing Board consists of five members elected by the voters of the County. This board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 29 non-certificated employees and 49 certificated employees (including administrative) to provide services to approximately 7,094 students in 9 districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the District 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 District's significant accounting policies are described below.

A. The Reporting Entity

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general and preschool operations.

Component units are legally separate organizations for which the ESC would be financially accountable. Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the ESC, and whether exclusion would cause ESC's GPFS to be misleading or incomplete.

Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the ESC. Responsibility was evaluated on the basis of financial dependence and the manifestations of oversight exercised by the Governing Board. Among the factors considered were budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the ESC, any obligation of the ESC to finance any deficits that may occur, reliance of the organization on continuing subsidies from the ESC, and/or selection of governing authority, and designation of management. The ESC has no component units. The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent school district. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

Millstream Career Cooperative

The Millstream Career Cooperative (Millstream) is a distinct political subdivision of the State of Ohio established under Section 3313.90. Millstream operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Putnam and Hancock Counties Educational Service Centers serve in an ex-officio capacity for all meetings. To obtain financial information write to Pamela Barber, Treasurer, Findlay City Schools, at 227 South West Street, Findlay, Ohio 45840-3377.

The ESC also participates in two group purchasing pools for insurance, described in Note 10.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in fiduciary funds) are accounted for through governmental funds. The following are the ESC's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

FIDUCIARY FUNDS

Agency Funds - These funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual (See Note 3.C.).

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the ESC.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the ESC.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements, and donations. On the modified accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are also recorded as deferred revenue.

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

D. Budgetary Process

An Educational Service Center is required by § 3317.11 of the Ohio Revised Code to submit an annual budget of operating expenses to the State Board of Education for approval.

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

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

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

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$37. This amount is provided from State resources.

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

APPROPRIATIONS

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

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2002.

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental funds. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting, compared to encumbrances outstanding at fiscal year-end reported as expenditures on the budget basis of accounting. Note 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. 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 combined balance sheet.

During 2002, investments were limited to non-negotiable certificates of deposit, a U.S. government money market mutual fund, and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2002 totaled \$94,448 which included \$9,458 assigned from other funds of the District.

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

An analysis of the Treasurer's investment account is provided in Note 4.

F. Fixed Assets

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$250 and a useful life of less than three years. No depreciation is recognized for assets in the general fixed assets account group. The ESC has no infrastructure.

G. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all certified employees age 40 or greater with at least 15 years of service and all classified employees age 40 or greater with at least 10 years of service were considered expected 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 the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and sick leave of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group.

H. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences that will be paid from governmental funds are reported as liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial

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resources. Payments made more than 60 days after fiscal year-end are considered not to have used current, available financial resources. Capital leases obligations are reported as a liability of the general long-term obligations account group until due.

I. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

J. Interfund Transactions

During the course of normal operations, the ESC has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the ESC's interfund transactions for fiscal year 2002 is presented in Note 5.

K. Estimates

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

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L. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY

A. Deficit Fund Balances

Fund balances at June 30, 2002 included the following individual fund deficits:

<u>Special Revenue Funds</u>	<u>Deficit Balance</u>
Miscellaneous State Grants	\$9,939
Goals 2000	71

These funds complied with State law which does not allow a cash-basis deficit at year-end. These deficits, caused by the application of GAAP, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The general fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

B. Budgetary

The following fund had appropriations in excess of sources available for appropriation.

<u>Fund</u>	<u>Excess</u>
General Fund	\$14,946

C. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>ASSETS</u>	
Accounts receivable	\$51,824
 <u>LIABILITIES</u>	
Accounts payable	5,000

NOTE 4 -EQUITY IN POOLED CASH 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.

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

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

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the 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 moneys deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to

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maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end the carrying amount of the ESC's deposits was \$1,442,178 and the bank balance was \$1,692,979 (both amounts include \$940,656 in non-negotiable certificates of deposit). Of the bank balance:

1. \$500,000 was covered by federal depository insurance; and
2. \$1,192,979 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The ESC's investments are required to be categorized to give an indication of the level of risk assumed by the ESC at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the ESC or its agent in the ESC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the ESC's name. The U.S. government money market mutual fund is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category of Risk 2	Fair Value
Federal agency securities	453,470	453,470
Not subject to categorization:		
U.S. Government money market mutual fund		30,064
Total investments	\$453,470	\$483,534

The federal agency securities have maturity dates ranging from December 12, 2003 through February 15, 2004.

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9 entitled, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

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	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$1,925,712	
Investments of the cash management pool:		
Federal agency securities	(453,470)	\$453,470
U.S. Government money market mutual fund	(30,064)	30,064
GASB Statement No. 3	\$1,442,178	\$483,534

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002 consist of the following interfund loans receivable and/or payable:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$24,887	
Special Revenue Funds:		
Miscellaneous State Grants		\$9,834
Ohio Justice Program Drug Free Grant		3,541
Miscellaneous Federal Grants		11,512
Total Interfund Loans	\$24,887	\$24,887

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002, consisted primarily of investment earnings, an interfund loan, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). 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 principal items of receivables follows:

	Amounts
<u>General Fund</u>	
Accrued interest	\$5,103
Interfund loan	24,887
Due from other governments	12,177
<u>Special Revenue Funds</u>	
Due from other governments	281,339

NOTE 7 - FIXED ASSETS

A summary of the changes in the general fixed asset account group during the fiscal year follows:

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	Balance 7/1/01	Additions	Deletions	Balance 6/30/02
Buildings/improvements	\$231,884			\$231,884
Furniture/equipment	1,094,018	\$255,095	\$46,687	1,302,426
Vehicles	15,401			15,401
Total	\$1,341,303	\$255,095	\$46,687	\$1,549,711

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years and in the current year, the ESC entered into capital lease agreements for copiers, a postage machine, and a modular classroom. New leases are accounted for as a capital outlay expenditure and other financing source.

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for all Governmental Fund Types.

These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$194,064, which is equal to the present value of the future minimum payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2002 fiscal year totaled \$33,798. This amount is reflected as debt service principal retirement in the general fund and special revenue funds.

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, 2002:

General Long-Term Obligations	
Year Ending June 30:	Equipment
2003	\$46,194
2004	46,194
2005	46,194
2006	41,801
2007	12,575
Total future minimum lease payments	192,958
Less: amount representing interest	25,895
Present value of future minimum lease payment	<u>\$167,063</u>

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

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NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension benefit obligation will ultimately be paid from the fund from which the employee is paid.

	Balance 7/1/01	Increase	Decrease	Balance 6/30/02
Compensated absences	\$297,341	\$63,702	\$8,115	\$352,928
Pension benefit obligation		5,763		5,763
Capital lease obligation	29,569	171,292	33,798	167,063
Total	<u>\$326,910</u>	<u>\$240,757</u>	<u>\$41,913</u>	<u>\$525,754</u>

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the ESC contracted for the following insurance coverage:

Coverage provided by Indiana Insurance Company:		
Commercial Property Contents - replacement		\$ 391,000
Coverage provided by Elevators Mutual Insurance Company:		
Electronic Equipment Floater Policy		41,113
Coverage provided by West American Insurance Company:		
Hired Auto coverage		1,000,000
Auto:		
Liability		1,000,000
Medical (per person)		5,000
Uninsured (per accident)		1,000,000
Coverage provided by Ohio Schools Risk Sharing Authority:		
General Liability		
Per Occurrence		1,000,000
Total per Year		3,000,000

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

B. Employee Group Health, Dental and Prescription Drugs

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

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

C. Workers' Compensation

The ESC participates in the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. 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. Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The Treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which was 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$37,176, \$35,049, and \$33,203, respectively; 80.2% has been contributed for fiscal year 2002, and 100% for the fiscal years 2001 and 2000. \$7,360, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible

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service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$196,167, \$124,582, and \$113,401, respectively; 88.9% has been contributed for fiscal year 2002, and 100% for the fiscal years 2001 and 2000. \$21,775, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, certain members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$92,921 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$63,486 during the 2002 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Budget basis	\$53,011	(\$97,804)	\$1,000
Net adjustment for revenue accruals	(5,330)	(81,427)	
Net adjustment for expenditure accruals	(80,435)	(132,288)	
Net adjustment for other financing sources/(uses)	10,181	161,825	
Encumbrances (budget basis)	36,641	32,426	
GAAP basis	\$14,068	(\$117,268)	\$1,000

NOTE 14 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the

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grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2002.

B. Litigation

As of the balance sheet date, the ESC was not involved in any litigation as either defendant or plaintiff.

C. School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDING JUNE 30, 2002**

FEDERAL GRANTOR Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Entity's Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF JUSTICE				
Direct Assistance				
Drug Free Communities Support Program Grants	16.729	2001JNFX0051	\$51,454	\$47,078
		2001JNFX0051	45,499	49,006
Total Office of Justice Program			<u>96,953</u>	<u>96,084</u>
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION				
Passed Through Ohio Department of Public Safety				
State and Community Highway Safety	20.600	1099	30,442	17,566
		1441	11,843	21,385
Total State and Community Highway Safety			<u>42,285</u>	<u>38,951</u>
UNITED STATES DEPARTMENT OF EDUCATION				
Direct Assistance				
Twenty-first Century Community Learning Centers	84.287	990148	73,727	45,734
		990148	295,203	274,479
Total Twenty-first Century Community Learning Centers			<u>368,930</u>	<u>320,213</u>
Passed Through Ohio Department of Education				
Migrant Education - Basic State Grant Program	84.011	MGS1-00		6,871
		MGS1-01	80,807	106,626
		MGS1-02	31,680	9,024
Total Migrant Education - Basic State Grant Program			<u>112,487</u>	<u>122,521</u>
Special Education Cluster				
Special Education - Grants to States	84.027	6BSF-02	364,091	364,091
		6BSF-01	14,594	44,805
		6BSX-02	78,206	58,823
		49304	15,000	8,694
Total Special Education - Grants to States			<u>471,891</u>	<u>476,413</u>
Special Education - Preschool Grant	84.173	PGS1-02	23,112	23,112
Total Special Education Cluster			<u>495,003</u>	<u>499,525</u>
Safe and Drug Free Schools and Communities State Grant	84.186	DRS1-01		1,315
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2S2-01		38,946
Eisenhower Professional Development State Grants	84.281	MSS1-01		13,610
Passed Through Ohio Department of Health				
Special Education - Grants for Infants and Families with Disabilities	84.181	69-5-01-F-AN-392	18,887	23,877
		69-5-02-F-AN-392	28,836	30,806
Total Grants for Infants and Families with Disabilities			<u>47,723</u>	<u>54,683</u>
Total Department of Education			<u>1,024,143</u>	<u>1,050,813</u>

(Continued)

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDING JUNE 30, 2002
(Continued)

FEDERAL GRANTOR Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Entity's Number	Receipts	Disbursements
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
<i>Passed Through Ohio Department of Education</i>				
Learn and Serve America Grant	94.004	SVS2-02	3,000	2,891
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program - CAFS	93.778	6900134	101,715	101,715
Promoting Safe and Stable Families	93.556		2,256	2,256
<i>Passed Through Putnam County Jobs and Family Services</i>				
Promoting Safe and Stable Families	93.556			1,726
<i>Passed Through Putnam County Family Children First Council</i>				
Promoting Safe and Stable Families	93.556		12,000	4,600
Total promoting Safe and Stable Families			14,256	8,582
Total U.S. Department of Health and Human Services			115,971	110,297
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$1,282,352	\$1,299,036

The accompanying notes are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

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

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

To the Governing Board:

We have audited the financial statements of the Putnam County Educational Service Center, (the ESC) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the ESC in a separate letter dated December 4, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the ESC in a separate letter dated December 4, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

December 4, 2002



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Governing Board:

Compliance

We have audited the compliance of Putnam County Educational Service Center (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 are applicable to each of its major federal programs for the year ended June 30, 2002. The ESC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ESC's management. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

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

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the ESC in a separate letter dated December 4, 2002.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized loop at the end.

Jim Petro
Auditor of State

December 4, 2002

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions 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 weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Twenty-First Century Community Learning Centers CFDA# 84.287 Medical Assistance Program CFDA#93.778
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

PUTNAM COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2002**