



**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**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 Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - General Fund	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Comparison (Non-GAAP Budgetary Basis) - IDEA Part B Grants Fund	20
Statement of Fiduciary Net Assets - Fiduciary Fund	21
Notes to the Basic Financial Statements	23
Schedule of Federal Award Receipts and Expenditures	44
Notes to the Schedule of Federal Award Receipts and Expenditures.....	47
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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center, (the ESC), as of and for the year ended June 30, 2005, 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 Putnam County Educational Service Center as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Idea Part B Grant funds 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 16, 2006, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the ESC's basic financial statements. The federal awards expenditure schedule is required by 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. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 16, 2006

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Putnam County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$328,652 which represents a 19.17% decrease from 2004.
- General revenues accounted for \$1,078,460 in revenue or 19.20% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,538,463 or 80.80% of total revenues of \$5,616,923.
- The ESC had \$5,945,575 in expenses related to governmental activities; \$4,538,463 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,078,460 were not adequate to provide for these programs.
- The ESC's major governmental funds are the General fund and the IDEA Part "B" Grants fund. The general fund had \$3,184,918 in revenues and other financing sources and \$3,261,679 in expenditures. During fiscal year 2005, the general fund's fund balance decreased \$76,761 from \$1,233,008 to \$1,156,247.
- The Idea Part "B" Grants fund had \$993,035 in revenues and \$984,346 in expenditures. During fiscal year 2005, the Idea Part "B" Grants fund's fund balance increased \$8,689 from \$1,927 to \$10,616.

Using these Basic Financial Statements

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the General fund and the Idea Part "B" 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* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the ESC's Fiduciary Responsibilities

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The ESC as a Whole

Recall that the Statement of Net Assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 1,993,517	\$ 2,228,748
Capital assets	<u>506,016</u>	<u>570,645</u>
Total assets	<u>2,499,533</u>	<u>2,799,393</u>
<u>Liabilities</u>		
Current liabilities	583,057	560,280
Long-term liabilities	<u>530,931</u>	<u>524,916</u>
Total liabilities	<u>1,113,988</u>	<u>1,085,196</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	394,595	477,644
Restricted	262,120	420,251
Unrestricted	<u>728,830</u>	<u>816,302</u>
Total net assets	<u>\$ 1,385,545</u>	<u>\$ 1,714,197</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the ESC's assets exceeded liabilities by \$1,385,545. Of this total, \$728,830 is unrestricted in use.

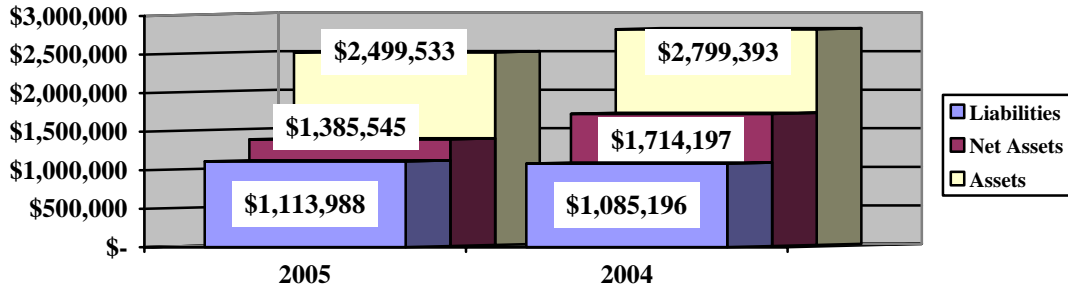
At year-end, capital assets represented 20.24% of total assets. Capital assets include buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$394,595. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

A portion of the ESC's net assets, \$262,120, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$728,830 may be used to meet the ESC's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,021,905	\$ 2,308,406
Operating grants and contributions	2,516,558	2,518,898
General revenues:		
Grants and entitlements	991,744	947,501
Investment earnings	35,048	31,841
Other	51,668	62,432
Total revenues	<u>5,616,923</u>	<u>5,869,078</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

<u>Expenses</u>	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
Program expenses:		
Instruction:		
Regular	\$ 722,490	\$ 763,807
Special	913,079	977,200
Adult/continuing	54,442	26,177
Other		220
Support services:		
Pupil	752,982	903,385
Instructional staff	1,631,261	1,831,756
Board of education	33,302	30,133
Administration	254,565	212,667
Fiscal	225,946	199,922
Operations and maintenance	129,275	61,730
Pupil transportation	60,217	59,950
Central	54,272	36,317
Operations of non-instructional services	92,774	96,966
Intergovernmental pass-through	1,016,543	813,756
Interest and fiscal charges	<u>4,427</u>	<u>6,129</u>
Total expenses	<u>5,945,575</u>	<u>6,020,115</u>
Change in net assets	(328,652)	(151,037)
Net assets at beginning of year	<u>1,714,197</u>	<u>1,865,234</u>
Net assets at end of year	<u>\$ 1,385,545</u>	<u>\$ 1,714,197</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$328,652. Total governmental expenses of \$5,945,575 were offset by program revenues of \$4,538,463 and general revenues of \$1,078,460. Program revenues supported 76.33% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 36.00% of total governmental revenue.

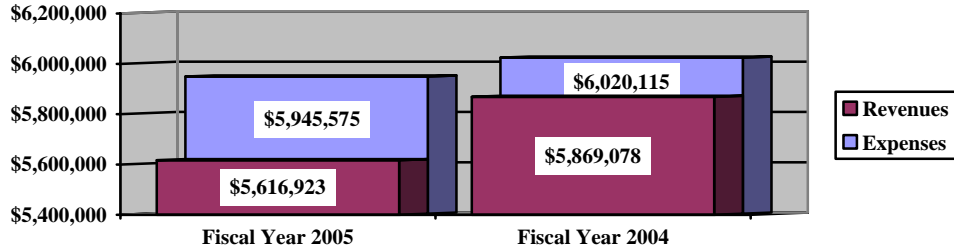
The largest expense of the ESC is for instructional programs. Instruction expenses and related support services for pupils and instructional staff totaled \$4,074,254 or 68.52% of total governmental expenses for fiscal 2005.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2005 and 2004.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 722,490	\$ 459,642	\$ 763,807	\$ 440,651
Special	913,079	(3,362,536)	977,200	(3,526,796)
Adult/continuing	54,442	54,442	26,177	26,177
Other			220	68
Support services:				
Pupil	752,982	752,982	903,385	903,385
Instructional staff	1,631,261	1,631,261	1,831,756	1,831,756
Board of education	33,302	33,302	30,133	30,133
Administration	254,565	254,565	212,667	212,667
Fiscal	225,946	225,946	199,922	199,922
Operations and maintenance	129,275	129,275	61,730	61,730
Pupil transportation	60,217	60,217	59,950	59,950
Central	54,272	54,272	36,317	36,317
Operations of non-instructional services	92,774	92,774	96,966	96,966
Intergovernmental pass-through	1,016,543	1,016,543	813,756	813,756
Interest and fiscal charges	4,427	4,427	6,129	6,129
Total expenses	<u>\$ 5,945,575</u>	<u>\$ 1,407,112</u>	<u>\$ 6,020,115</u>	<u>\$ 1,192,811</u>

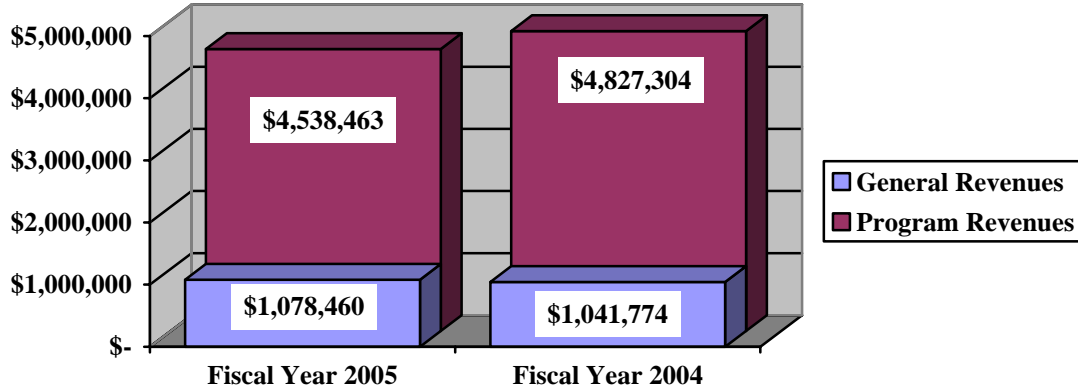
The dependence upon other general revenues for governmental activities is apparent, general revenue support is 23.67%. The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

The graph below presents the ESC's governmental activities revenue for fiscal year 2005 and 2004.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,385,896, which is lower than last year's total of \$1,486,996. The June 30, 2004, fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 1,156,247	\$ 1,233,008	\$ (76,761)	(6.23) %
Idea Part "B" Grants	10,616	1,927	8,689	451 %
Other Governmental	<u>219,033</u>	<u>252,061</u>	<u>(33,028)</u>	(13.10) %
Total	<u>\$ 1,385,896</u>	<u>\$ 1,486,996</u>	<u>\$ (101,100)</u>	(6.80) %

General Fund

The ESC's general fund balance decreased by \$76,761 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues still being lower than decreased expenditures. Expenditures exceed revenues for fiscal year 2005 by \$161,314. 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, 2005
UNAUDITED
(Continued)**

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Contract Services	\$ 1,675,148	\$ 1,980,410	\$ (305,262)	(15.41) %
Earnings on investments	35,048	31,841	3,207	10.07 %
Intergovernmental	991,744	947,501	44,243	4.67 %
Other revenues	<u>398,425</u>	<u>390,352</u>	<u>8,073</u>	2.07 %
Total	<u>\$ 3,100,365</u>	<u>\$ 3,350,104</u>	<u>\$ (249,739)</u>	(7.45) %
<u>Expenditures</u>				
Instruction	\$ 930,488	\$ 1,016,754	\$ (86,266)	(8.48) %
Support services	2,230,042	2,356,296	(126,254)	(5.36) %
Capital outlay	84,553	-	84,553	100.00 %
Debt service	<u>16,596</u>	<u>13,097</u>	<u>3,499</u>	26.72 %
Total	<u>\$ 3,261,679</u>	<u>\$ 3,386,147</u>	<u>\$ (124,468)</u>	(3.68) %

Idea Part "B" Grant Fund

The Idea Part "B" Grants fund had \$993,035 in revenues and \$984,346 in expenditures. During fiscal year 2005, the Idea Part "B" Grants fund's fund balance increased \$8,689 from \$1,927 to \$10,616.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$2,926,895 and final budgeted revenues and other financing sources were \$3,002,862. Actual revenues and other financing sources for fiscal 2005 was \$3,262,597. This represents a \$259,735 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,157,070 were increased to \$4,205,912 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$3,234,030, which was \$971,882 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the ESC had \$506,016 invested in 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 2005 balances compared to 2004:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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

	Governmental Activities	
	2005	2004
Building and improvements	\$ 253,104	\$ 270,038
Furniture and equipment	252,229	294,832
Vehicles	683	5,775
 Total	 \$ 506,016	 \$ 570,645

The overall decrease in capital assets of \$64,629 is due to depreciation expense of \$111,818, and disposals of \$72,194 (net of accumulated depreciation) exceeding capital outlays of \$119,383 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, 2005, the ESC had \$111,421 in capital lease obligations outstanding. Of this total, \$38,664 is due within one year and \$72,757 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
	2005	2004
Capital lease obligations	\$ 111,421	\$ 93,001
 Total	 \$ 111,421	 \$ 93,001

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 Ed billings from the local districts, and state foundation payments. State funding is predicted to be flat for the next several years impacting the ESC and its local districts.

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Another challenge facing the ESC is the construction of a new facility to house our offices, as well as, a higher education facility with six flexible classrooms. Approximate cost of the facility is running around \$3.3 million, with our investment being \$1 million over a 25 year lease purchase agreement with the Village of Ottawa. A grant from the EDA and the Village will be contributing the remaining portion of the funding. We are looking at Summer/Fall of 2006 as the completion date for the project.

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

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

Contacting the ESC's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Michael Siebeneck, Treasurer, Putnam County ESC, 336 E. Main Street, PO Box 190 Ottawa, Ohio 45875-0190.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,825,514
Receivables:	
Accounts	15
Intergovernmental	166,381
Accrued interest	1,607
Capital assets:	
Depreciable capital assets, net	506,016
Total assets	2,499,533
 Liabilities:	
Accounts payable	9,997
Accrued wages and benefits	447,585
Pension obligation payable	79,171
Intergovernmental payable	45,908
Accrued interest payable	396
Long-term liabilities:	
Due within one year	129,705
Due within more than one year	401,226
Total liabilities	1,113,988
 Net Assets:	
Invested in capital assets, net	
of related debt	394,595
Restricted for:	
Locally funded programs	10,318
State funded programs	62,355
Federally funded programs	189,447
Unrestricted	728,830
Total net assets	\$ 1,385,545

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 722,490	\$ 262,848		\$ (459,642)
Special	913,079	1,759,057	\$ 2,516,558	3,362,536
Adult/continuing	54,442			(54,442)
Support services:				
Pupil	752,982			(752,982)
Instructional staff	1,631,261			(1,631,261)
Board of education	33,302			(33,302)
Administration	254,565			(254,565)
Fiscal	225,946			(225,946)
Operations and maintenance	129,275			(129,275)
Pupil transportation	60,217			(60,217)
Central	54,272			(54,272)
Operation of non-instructional services	92,774			(92,774)
Intergovernmental pass-through	1,016,543			(1,016,543)
Interest and fiscal charges	4,427			(4,427)
Total governmental activities	\$ 5,945,575	\$ 2,021,905	\$ 2,516,558	\$ (1,407,112)
		General Revenues:		
		Grants and entitlements not restricted to specific programs		991,744
		Investment earnings		35,048
		Miscellaneous		51,668
		Total general revenues		1,078,460
		Change in net assets		(328,652)
		Net assets at beginning of year		1,714,197
		Net assets at end of year		\$ 1,385,545

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>IDEA Part B Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,658,109	\$ 7,879	\$ 159,526	\$ 1,825,514
Receivables:				
Accounts	15			15
Intergovernmental		21,030	145,351	166,381
Accrued interest	1,607			1,607
Interfund receivable	18,367			18,367
Total assets	<u>\$ 1,678,098</u>	<u>\$ 28,909</u>	<u>\$ 304,877</u>	<u>\$ 2,011,884</u>
Liabilities:				
Accounts payable		\$ 9,997		\$ 9,997
Accrued wages and benefits	\$ 420,006		\$ 27,579	447,585
Pension obligation payable	69,247	759	9,165	79,171
Intergovernmental payable	32,598	7,411	5,899	45,908
Interfund payable			18,367	18,367
Deferred revenue		126	24,834	24,960
Total liabilities	<u>521,851</u>	<u>18,293</u>	<u>85,844</u>	<u>625,988</u>
Fund Balances:				
Reserved for encumbrances	27,591	9,324	171,237	208,152
Unreserved, undesignated, reported in:				
General fund	1,128,656			1,128,656
Special revenue funds		1,292	47,796	49,088
Total fund balances	<u>1,156,247</u>	<u>10,616</u>	<u>219,033</u>	<u>1,385,896</u>
Total liabilities and fund balances	<u>\$ 1,678,098</u>	<u>\$ 28,909</u>	<u>\$ 304,877</u>	<u>\$ 2,011,884</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, 2005**

Total governmental fund balances		\$ 1,385,896
 <i>Amounts reported for governmental activities in 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.		506,016
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental revenue	\$ 24,960	
Total		24,960
 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligation	111,421	
Compensated absences	419,510	
Accrued interest payable	396	
Total		(531,327)
Net assets of governmental activities		\$ 1,385,545

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, 2005**

	<u>General</u>	<u>IDEA Part B Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 154,109			\$ 154,109
Earnings on investments	35,048			35,048
Contract services	1,675,148			1,675,148
Other local revenues	244,316			244,316
Intergovernmental - Intermediate	80,000		\$ 8,550	88,550
Intergovernmental - State	786,042		779,915	1,565,957
Intergovernmental - Federal	125,702	\$ 993,035	883,315	2,002,052
Total revenue	<u>3,100,365</u>	<u>993,035</u>	<u>1,671,780</u>	<u>5,765,180</u>
Expenditures:				
Current:				
Instruction:				
Regular	126,303		593,859	720,162
Special	804,185		52,314	856,499
Adult/continuing			54,442	54,442
Support services:				
Pupil	606,044		123,373	729,417
Instructional staff	1,100,697		469,070	1,569,767
Board of education	33,302			33,302
Administration	212,476		79,044	291,520
Fiscal	208,833		13,505	222,338
Operations and maintenance	66,615		55,923	122,538
Pupil transportation			57,208	57,208
Central	2,075		52,197	54,272
Operation of non-instructional services			92,774	92,774
Intergovernmental pass-through		984,346	32,197	1,016,543
Capital outlay	84,553			84,553
Debt service:				
Principal retirement	12,473		25,616	38,089
Interest and fiscal charges	4,123		3,286	7,409
Total expenditures	<u>3,261,679</u>	<u>984,346</u>	<u>1,704,808</u>	<u>5,950,833</u>
Excess of revenues over (under) expenditures	<u>(161,314)</u>	<u>8,689</u>	<u>(33,028)</u>	<u>(185,653)</u>
Other financing sources:				
Capital lease transaction	84,553			84,553
Net change in fund balances	(76,761)	8,689	(33,028)	(101,100)
Fund balances				
at beginning of year (restated)	1,233,008	1,927	252,061	1,486,996
Fund balances at end of year	<u>\$ 1,156,247</u>	<u>\$ 10,616</u>	<u>\$ 219,033</u>	<u>\$ 1,385,896</u>

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, 2005**

Net change in fund balances - total governmental funds \$ (101,100)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$119,383) exceeded depreciation expense (\$111,818) in the current period. 7,565

The net effect of various miscellaneous transactions involving capital assets (i.e., disposals, sales, trade-ins, and donations) is to decrease net assets. (72,194)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (148,257)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 38,089

The capital lease obligation was refinanced in the current reporting period. The net effect of this refinancing reduces long-term liabilities on the statement of net assets. 28,044

Proceeds of capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (84,553)

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on the capital lease obligation. 2,982

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. 772

Change in net assets of governmental activities \$ (328,652)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<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	\$ 76,000	\$ 108,998	\$ 154,109	45,111
Contract services	1,455,600	1,442,969	1,750,330	307,361
Earnings on investments	35,000	35,000	35,587	587
Other local revenues	132,000	187,600	244,306	56,706
Intergovernmental - Intermediate	80,000	80,000	80,000	
Intergovernmental - State	1,031,888	1,031,888	786,042	(245,846)
Intergovernmental - Federal	30,000	30,000	125,702	95,702
Total revenue	<u>2,840,488</u>	<u>2,916,455</u>	<u>3,176,076</u>	<u>259,621</u>
Expenditures:				
Current:				
Instruction:				
Regular	165,174	167,115	124,629	42,486
Special	1,004,477	1,016,279	810,943	205,336
Support services:				
Pupil	658,569	666,307	597,705	68,602
Instructional staff	1,464,959	1,482,170	1,128,224	353,946
Board of education	86,869	87,890	41,007	46,883
Administration	392,126	396,733	231,010	165,723
Fiscal	219,564	222,144	205,723	16,421
Operations and maintenance	153,471	155,274	73,947	81,327
Central	11,861	12,000	2,475	9,525
Total expenditures	<u>4,157,070</u>	<u>4,205,912</u>	<u>3,215,663</u>	<u>990,249</u>
Excess of expenditures over revenues	<u>(1,316,582)</u>	<u>(1,289,457)</u>	<u>(39,587)</u>	<u>1,249,870</u>
Other financing sources (uses):				
Refund of prior year expenditure			114	114
Advances in	86,407	86,407	86,407	
Advances (out)			(18,367)	(18,367)
Total other financing sources (uses)	<u>86,407</u>	<u>86,407</u>	<u>68,154</u>	<u>(18,253)</u>
Net change in fund balance	(1,230,175)	(1,203,050)	28,567	1,231,617
Fund balance at beginning of year	1,562,189	1,562,189	1,562,189	
Prior year encumbrances appropriated	44,341	44,341	44,341	
Fund balance at end of year	<u>\$ 376,355</u>	<u>\$ 403,480</u>	<u>\$ 1,635,097</u>	<u>\$ 1,231,617</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
IDEA PART B GRANT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
Intergovernmental - Federal	\$ 929,578	\$ 993,160	\$ 972,131	\$ (21,029)
Total revenue	<u>929,578</u>	<u>993,160</u>	<u>972,131</u>	<u>(21,029)</u>
Expenditures:				
Current:				
Instruction:				
Special	391,820	391,820	389,253	2,567
Support services:				
Pupil	386,959	386,959	383,359	3,600
Instructional staff	158,807	158,807	155,218	3,589
Administration	4,700	4,700	4,643	57
Fiscal	17,843	17,843	17,823	20
Operations and maintenance	3,600	3,600	3,600	
Pupil transportation	4,000	4,000	4,246	(246)
Operation of non-instructional services	<u>27,828</u>	<u>27,828</u>	<u>27,828</u>	
Total expenditures	<u>995,557</u>	<u>995,557</u>	<u>985,970</u>	<u>9,587</u>
Net change in fund balance	(65,979)	(2,397)	(13,839)	(11,442)
Fund balance at beginning of year	1,527	1,527	1,527	
Prior year encumbrances appropriated	870	870	870	
Fund balance (deficit) at end of year	<u>\$ (63,582)</u>	<u>\$ (63,582)</u>	<u>\$ (11,442)</u>	<u>\$ (11,442)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 199,608
Receivables:	
Accounts	<u>19,572</u>
Total assets	<u>\$ 219,180</u>
Liabilities:	
Accrued wages and benefits	\$ 9,068
Pension obligation payable	395
Due to other governments	<u>209,717</u>
Total liabilities	<u>\$ 219,180</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, policy and procedures, and approves all financial activities. The ESC is staffed by 40 non-certificated employees and 47 certificated employees (including administrative) to provide services to approximately 6,699 students in 9 districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general and preschool operations.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government). The following organizations are described due to their relationship to the ESC:

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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 227 South West Street, Findlay, Ohio 45840-3377.

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency fund accounts for monies held for other governmental entities.

C. Basis of Presentation and Measurement Focus

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

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

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition, interest and intergovernmental grants.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

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

The Educational Service Center'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 Educational Service Center'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 level 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 years. 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.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to a U.S. government money market mutual fund, certificates of deposit, and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposit, are reported at cost.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

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 2005 amounted to \$35,048, which includes \$2,672 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.

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets. As of June 30, 2005, the ESC had \$18,367 of interfund receivables in the general fund and payable from various special revenue funds (see Note 5).

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

L. Net Assets

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

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

M. Estimates

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

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTING AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the ESC has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - ACCOUNTING AND COMPLIANCE – (Continued)

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the ESC, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the ESC, as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>IDEA Part B Grant</u>	<u>Other Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 1,244,866	\$ 1,927	\$ 256,256	\$ 1,503,049
GASB Technical Bulletin No. 2004-2	(11,858)		(4,195)	(16,053)
Restated Fund Balance, June 30, 2004, restated	<u>\$ 1,233,008</u>	<u>\$ 1,927</u>	<u>\$ 252,061</u>	<u>\$ 1,486,996</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information System	\$ 37
Entry Year Programs	23
Juvenile Justice	4,561
Alternative Schools	470

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Interim deposits are deposits of interim monies. Interim moneys 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.

Protection of 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.

Interim monies to 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasury Asset Reserve of Ohio (STAR Ohio);

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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all ESC deposits was \$1,517,706. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$906,071 of the ESC's bank balance of \$1,606,071 was exposed to custodial risk as discussed below, while \$700,000 was covered by Federal Deposit Insurance Corporation.

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.

B. Investments

As of June 30, 2005, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>>24 months</u>
FHLM	\$ 223,336	\$ 124,259	\$ 49,666	\$ 49,411	\$ -	\$ -
FNMA	272,919	-	173,559	-	-	99,360
U.S. Government money market	11,161	11,161	-	-	-	-
	<u>\$ 507,416</u>	<u>\$ 135,420</u>	<u>\$ 223,225</u>	<u>\$ 49,411</u>	<u>\$ -</u>	<u>\$ 99,360</u>

The weighted average maturity of investments is .31 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The ESC's investments were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLM	\$ 223,336	44.01
FNMA	272,919	53.79
U.S. Government money market	11,161	2.20
	<u>\$ 507,416</u>	<u>100.00</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per Note Disclosure:</u>	
Carrying amount of deposits	\$ 1,517,706
Investments	507,416
Total	\$ 2,025,122
 <u>Cash and investments per Statement of Net Assets:</u>	
Governmental activities	\$ 1,825,514
Agency funds	199,608
Total	\$ 2,025,122

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 18,367

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005, are reported on the Statement of Net Assets.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Accounts	\$ 15
Intergovernmental	166,381
Accrued interest	1,607
Total	\$ 168,003

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 – RECEIVABLES – (Continued)

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance <u>07/01/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</u>
Governmental Activities				
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	\$ 338,690	\$ -	\$ -	\$ 338,690
Furniture and equipment	854,619	119,383	(163,451)	810,551
Vehicles	<u>14,501</u>	<u>-</u>	<u>(6,500)</u>	<u>8,001</u>
Total capital assets, being depreciated	<u>1,207,810</u>	<u>119,383</u>	<u>(169,951)</u>	<u>1,157,242</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(68,652)	(16,934)	-	(85,586)
Furniture and equipment	(559,787)	(91,875)	93,340	(558,322)
Vehicles	<u>(8,726)</u>	<u>(3,009)</u>	<u>4,417</u>	<u>(7,318)</u>
Total accumulated depreciation	<u>(637,165)</u>	<u>(111,818)</u>	<u>97,757</u>	<u>(651,226)</u>
Governmental activities capital assets, net	<u>\$ 570,645</u>	<u>\$ 7,565</u>	<u>\$ (72,194)</u>	<u>\$ 506,016</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 3,787
Special	25,803
<u>Support Services:</u>	
Pupil	8,146
Instructional staff	51,316
Administration	11,278
Fiscal	1,742
Operations and maintenance	6,737
Pupil transportation	<u>3,009</u>
Total depreciation expense	<u>\$111,818</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In fiscal 2005 and in prior years, the ESC entered into lease agreements for copiers, a postage machine, and a modular classroom. The terms of each lease agreement provide options to purchase the equipment. Each lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting For Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. General capital assets acquired by lease have been capitalized in the amount of \$179,290, which is equal to the present value of the future minimum payments as of the date of their inception. A corresponding liability was recorded and is presented as a component of long-term liabilities on the statement of net assets. During fiscal 2005, principal payments totaled \$38,089 and interest payments totaled \$7,409. 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, 2005:

<u>Year Ending June 30</u>	<u>Equipment</u>
2006	\$ 45,778
2007	28,767
2008	19,776
2009	19,776
2010	<u>14,832</u>
Total future minimum lease payments	128,929
Less: amount representing interest	<u>(17,508)</u>
Present value of future minimum lease payment	<u>\$ 111,421</u>

The ESC does not have any capital lease obligations after fiscal year 2010.

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>	<u>Amounts</u>
	<u>07/01/04</u>			<u>06/30/05</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities:					
Capital lease obligations	\$ 93,001	\$ 84,553	\$ (66,133)	\$ 111,421	\$ 38,664
Compensated absences	<u>431,915</u>	<u>36,877</u>	<u>(49,282)</u>	<u>419,510</u>	<u>91,041</u>
Total long-term obligations, governmental activities	<u>\$ 524,916</u>	<u>\$ 121,430</u>	<u>\$ (115,415)</u>	<u>\$ 530,931</u>	<u>\$ 129,705</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

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

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 65 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; and
- 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 contribution, insurance costs, and administration cost.

The ESC paid \$10,528 in premiums to the pool for fiscal year 2005 coverage.

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 Sky 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 claim review and processing. The ESC maintains stop-loss coverage for its medical insurance program. Aggregate stop loss is maintained for expected claims.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - RISK MANAGEMENT – (Continued)

C. Workers' Compensation

For fiscal year 2005, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

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. 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 Employee Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$119,690, \$62,882, and \$72,532, respectively; 0 percent has been contributed for fiscal years 2005 and 100 percent for fiscal years 2004 and 2003.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contribution for pension obligations for the DB for the fiscal years ended June 30, 2005, 2004, and 2003, was \$334,586, \$297,836, and \$294,838, respectively. The full amount has been contributed for fiscal year 2005, 2004, and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$382 made by the ESC and \$3,944 made by plan members.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - DEFINED BENEFIT PENSION PLANS – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, two of the Board of Education members have elected Social Security. The ESC'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 the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by Systems based on authority granted by state statute. Both systems are funded on a pay-as-you-go-basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$25,737 during fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, ESC paid \$56,142 to fund health care benefits, including the surcharge.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS – (Continued)

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide health care reserve equal to at least 150 percent of the estimated annual net claims costs. The number of participants eligible to receive benefits is 58,123.

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 Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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 fund are as follows:

Net Change in Fund Balance		
	<u>General</u>	<u>IDEA Part B Grant</u>
Budget basis	\$ 28,567	\$ (13,839)
Net adjustment for revenue accruals	(75,711)	20,904
Net adjustment for expenditure accruals	(74,007)	(17,697)
Net adjustment for other sources/uses	16,399	
Adjustment for encumbrances	27,991	19,321
GAAP basis	\$ (76,761)	\$ 8,689

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

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

C. State School Funding Decision

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

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

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDING JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF JUSTICE				
<i>Passed Through Ohio Department of Youth Services</i>				
Juvenile Justice and Delinquency Prevention Grant	16.540	2003-JJ-DP2-0061	\$17,305	\$18,930
		2004-JJ-DP2-0061	10,794	7,127
Total Juvenile Justice and Delinquency Prevention			28,099	26,057
UNITED STATES DEPARTMENT OF TRANSPORTATION				
<i>Passed Through Ohio Department of Public Safety</i>				
State and Community Highway Safety	20.600	4051.0	22,823	15,482
		5094	10,834	17,248
Total State and Community Highway Safety			33,657	32,730
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Twenty-first Century Community Learning Centers	84.287	049304-T1S1-04	138,465	92,491
		049304-T1S1-05	335,624	323,976
Total Twenty-first Century Community Learning Centers			474,089	416,467
Adult Education State Grant Program	84.002	049304-AB-S1-02		606
		049304-AB-S1-04	1,921	3,586
		049304-AB-S1-05	10,586	8,307
Total Adult Education State Grant Program			12,507	12,499
Migrant Education - State Grant Program	84.011	MGS1-04	77,276	110,858
		MGS1-05	24,613	16,005
Total Migrant Education - State Grant Program			101,889	126,863
<u>Special Education Cluster</u>				
Special Education - Grants to States	84.027	049304-6B-SA-04P	19,652	22,049
		049304-6B-SA-05	34,485	32,529
		049304-6B-SD-05	8,067	6,248
		049304-6B-SF-05	909,926	906,093
Total Special Education - Grants to States			972,130	966,919
Special Education - Preschool Grant	84.173	049304-PGS1-05	32,224	31,995
Total Special Education Cluster			1,004,354	998,914
Safe and Drug Free Schools and Communities- National Programs	84.184	049304-T4S1-04P	2,168	2,277
		049304-T4S1-04	3,484	3,759
Total Safe and Drug Free Schools and Communities			5,652	6,036
Even Start - State Educational Agencies	84.213	049304-EVS1-04	23,542	8,726
		049304-EVS1-05	204,840	173,116
Total Even Start - State Educational Agencies			228,382	181,842
Total Department of Education			1,826,873	1,742,621

(Continued)

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDING JUNE 30, 2005
(Continued)**

FEDERAL GRANTOR	Federal	Pass Through		
<i>Pass through Grantor</i>	CFDA	Entity		
Program Title	Number	Number	Receipts	Disbursements
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
<i>Passed Through Ohio Department of Education</i>				
Learn and Serve America - School and Community Based Programs	94.004	049304-SVS1-04	5,790	4,835
		049304-SVS1-05	7,000	7,589
Total Learn and Serve America - School and Community Based Programs			<u>12,790</u>	<u>12,424</u>
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	118,015	118,015
State Children's Insurance Program (SCHIP)	93.767	6900134	7,687	7,687
<i>Direct Assistance</i>				
Drug Free Communities Support Program Grants	93.276	2003JNFX0051	1,961	1,541
		2004JNFX0051	28,844	21,948
		2005JNFX0051	42,929	51,091
Total Drug Free Communities Support Program Grant			<u>73,734</u>	<u>74,580</u>
Total Department of Health and Human Service			<u>199,436</u>	<u>200,282</u>
UNITED STATES DEPARTMENT OF LABOR				
<i>Passed Through Putnam County Jobs and Family Services</i>				
Workforce Investment Act Youth Activities	17.259		2,233	
			11,502	14,705
Total Workforce Investment Act Youth Activities			<u>13,735</u>	<u>14,705</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>2,114,590</u></u>	<u><u>2,028,819</u></u>

See accompanying notes to the Schedule of Federal Award Receipts and Expenditures

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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 governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center (the ESC) as of and for the year ended June 30, 2005, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 16, 2006. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the ESC's management dated March 16, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*.

One Government Center / Room 1420 / Toledo, OH 43604-2246
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www.auditor.state.oh.us

Educational Service Center
Putnam County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 16, 2006



**Auditor of State
Betty Montgomery**

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

Educational Service Center
Putnam County
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 apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the ESC's major federal programs. The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the ESC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the ESC's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The ESC's management 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 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.

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

March 16, 2006

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
June 30, 2005**

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 Special Education Cluster: Title VI-B Special Education-Grants to States CFDA #84.027 Title VI-B Special Education - Preschool Grants CFDA #84.173
(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.



**Auditor of State
Betty Montgomery**

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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
APRIL 4, 2006**