



**Mary Taylor, CPA**  
Auditor of State



**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center, Putnam County, Ohio (the ESC), as of and for the year ended June 30, 2006, which collectively comprise the ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center, Putnam County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2007, 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.

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 Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual provide additional information and are not a required part of the basic financial statements. The federal awards receipts and 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 Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual and the federal awards receipts and 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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 25, 2007

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$2,941,575 which represents a 212.30% increase from 2005.
- General revenues accounted for \$1,040,806 in revenue or 11.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,981,310 or 88.46% of total revenues of \$9,022,116.
- The ESC had \$6,080,541 in expenses related to governmental activities; All of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,040,806 also provided for these programs.
- The ESC's major governmental funds are the General fund, the IDEA Part B Grant fund, and the Title I Even Start Educational Agency fund. The General fund had \$4,148,729 in revenues and other financing sources and \$4,509,852 in expenditures. During fiscal year 2006, the General fund balance decreased \$361,123 from \$1,156,247 to \$795,124.
- The IDEA Part B Grant fund had \$1,555,660 in revenues and \$1,443,535 in expenditures. During fiscal year 2006, the IDEA Part B Grant fund balance increased \$112,125 from \$10,616 to \$122,741.
- The Title I Even Start Educational Agency fund had \$198,542 in revenues and \$217,727 in expenditures. During fiscal year 2006, the Title I Even Start Educational Agencies fund balance decreased \$19,185 from \$30,462 to \$11,277.

**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, the IDEA Part B Grant fund, and the Title I Even Start Educational Agencies fund are by far the most significant funds, and the only governmental funds reported as major funds.

EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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 2006?" 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, and pupil transportation.

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the General fund, the IDEA Part B Grant fund, and the Title I Even Start Educational Agency 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. All of the ESC's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.



**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Assets</u></b>		
Current and other assets	\$ 2,005,419	\$ 1,993,517
Capital assets	<u>4,217,147</u>	<u>506,016</u>
Total assets	<u>6,222,566</u>	<u>2,499,533</u>
<b><u>Liabilities</u></b>		
Current liabilities	568,899	583,057
Long-term liabilities	<u>1,326,547</u>	<u>530,931</u>
Total liabilities	<u>1,895,446</u>	<u>1,113,988</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	3,370,466	394,595
Restricted	639,421	262,120
Unrestricted	<u>317,233</u>	<u>728,830</u>
Total net assets	<u>\$ 4,327,120</u>	<u>\$ 1,385,545</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the ESC's assets exceeded liabilities by \$4,327,120. Of this total, \$317,233 is unrestricted in use.

At year-end, capital assets represented 67.77% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$3,370,466. 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.

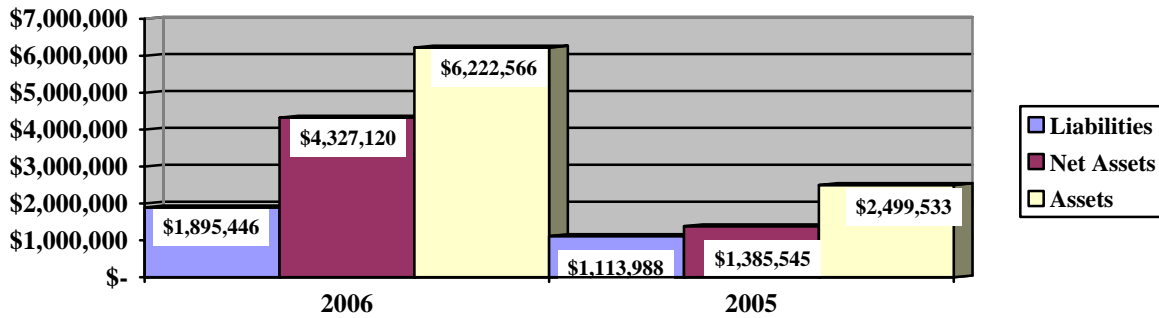
**EDUCATIONAL SERVICE CENTER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The increase in capital assets and long-term liabilities are both due to the ESC entering into a capital lease of a new facility to house administrative offices, as well as, a higher education facility with six flexible classrooms. A grant from the Economic Development Administration and the Village of Ottawa contributed to a portion of the funding for the facility. The ESC is contributing funding to the project through a 25 year lease purchase agreement with the Village.

A portion of the ESC's net assets, \$639,421, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$317,233 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 2006 and 2005.

	Governmental Activities 2006	Governmental Activities 2005
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 2,033,569	\$ 2,021,905
Operating grants and contributions	3,266,207	2,516,558
Capital grants and contributions	2,681,534	
General revenues:		
Grants and entitlements	941,576	991,744
Investment earnings	43,918	35,048
Other	55,312	51,668
<b>Total revenues</b>	<b>9,022,116</b>	<b>5,616,923</b>

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

<b><u>Expenses</u></b>	<b>Change in Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
Program expenses:		
Instruction:		
Regular	\$ 469,462	\$ 722,490
Special	806,499	913,079
Adult/continuing	82,146	54,442
Support services:		
Pupil	868,919	752,982
Instructional staff	1,536,593	1,631,261
Board of education	32,098	33,302
Administration	246,875	254,565
Fiscal	230,215	225,946
Operations and maintenance	77,000	129,275
Pupil transportation	53,081	60,217
Central	65,453	54,272
Operations of non-instructional services	96,371	92,774
Intergovernmental pass-through	1,475,047	1,016,543
Interest and fiscal charges	<u>40,782</u>	<u>4,427</u>
Total expenses	<u>6,080,541</u>	<u>5,945,575</u>
Change in net assets	2,941,575	(328,652)
Net assets at beginning of year	<u>1,385,545</u>	<u>1,714,197</u>
Net assets at end of year	<u>\$ 4,327,120</u>	<u>\$ 1,385,545</u>

**Governmental Activities**

Net assets of the ESC's governmental activities increased \$2,941,575. Total governmental expenses of \$6,080,541 were offset by program revenues of \$7,981,310 and general revenues of \$1,040,806. Program revenues supported 131.26% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from operating grants and contributions and capital grants and contributions. These revenue sources represent 65.92% of total governmental revenue.

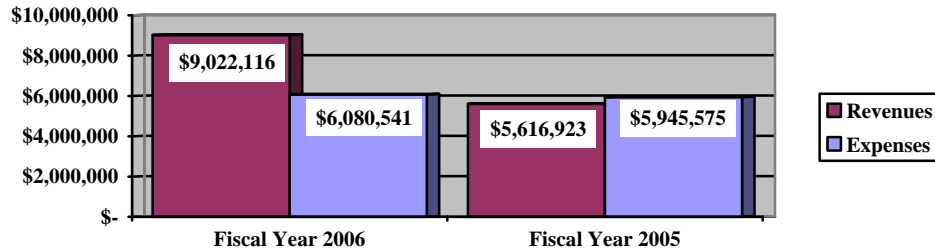
The largest expense of the ESC is for instructional staff programs. Instructional staff expenses totaled \$1,536,593 or 25.27% of total governmental expenses for fiscal 2006.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2006 and 2005.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 469,462	\$ 226,160	\$ 722,490	\$ 459,642
Special	806,499	(4,639,460)	913,079	(3,362,536)
Adult/continuing	82,146	82,146	54,442	54,442
Support services:				
Pupil	868,919	776,506	752,982	752,982
Instructional staff	1,536,593	1,174,449	1,631,261	1,631,261
Board of education	32,098	(19,470)	33,302	33,302
Administration	246,875	(31,663)	254,565	254,565
Fiscal	230,215	(84,874)	225,946	225,946
Operations and maintenance	77,000	74,683	129,275	129,275
Pupil transportation	53,081	51,264	60,217	60,217
Central	65,453	61,230	54,272	54,272
Operations of non-instructional services	96,371	(1,087,569)	92,774	92,774
Intergovernmental pass-through	1,475,047	1,475,047	1,016,543	1,016,543
Interest and fiscal charges	40,782	40,782	4,427	4,427
<b>Total expenses</b>	<b>\$ 6,080,541</b>	<b>\$ (1,900,769)</b>	<b>\$ 5,945,575</b>	<b>\$ 1,407,112</b>

The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

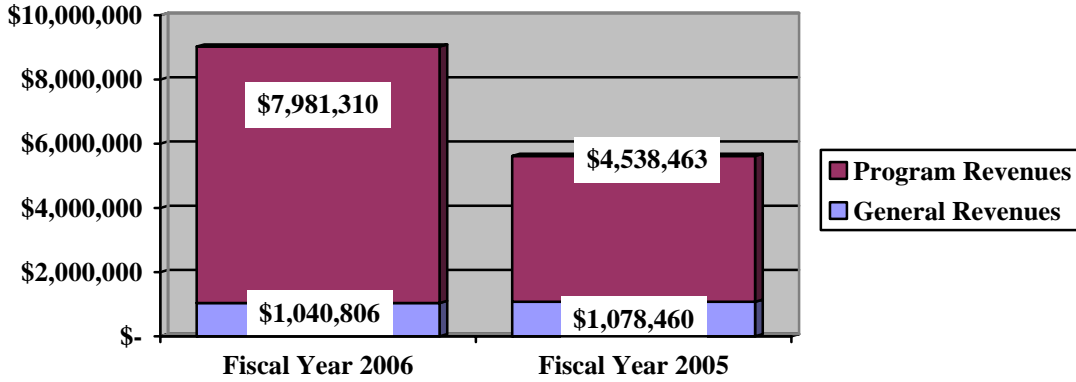
The change in net cost of services is due the receipt of capital grants associated with the ESC entering into a capital lease of a new facility. A grant from the EDA and the Village of Ottawa contributed to a portion of the funding for the facility. The ESC is contributing funding to the project through a 25 year lease purchase agreement with the Village.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The graph below presents the ESC's governmental activities revenue for fiscal year 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The ESC's Funds**

The ESC's governmental funds reported a combined fund balance of \$1,044,587, which is lower than last year's total of \$1,385,896. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 795,124	\$ 1,156,247	\$ (361,123)	(31.23) %
IDEA Part B Grant	122,741	10,616	112,125	1,056.19 %
Title I Even Start State Educational Agency Fund	11,277	30,462	(19,185)	(62.98) %
Other Governmental	<u>115,445</u>	<u>188,571</u>	<u>(73,126)</u>	(38.78) %
<b>Total</b>	<b><u>\$ 1,044,587</u></b>	<b><u>\$ 1,385,896</u></b>	<b><u>\$ (341,309)</u></b>	<b>(24.63) %</b>

**General Fund**

The ESC's general fund balance decreased by \$361,123. The decrease in fund balance can be attributed to several items related to decreasing revenues still being lower than increased expenditures. Expenditures exceed revenues for fiscal year 2006 by \$1,435,589. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Contract Services	\$ 1,694,903	\$ 1,675,148	\$ 19,755	1.18 %
Earnings on investments	43,918	35,048	8,870	25.31 %
Intergovernmental	941,576	991,744	(50,168)	(5.06) %
Other revenues	<u>393,866</u>	<u>398,425</u>	<u>(4,559)</u>	(1.14) %
 Total	 <u>\$ 3,074,263</u>	 <u>\$ 3,100,365</u>	 <u>\$ (26,102)</u>	 (0.84) %
 <b><u>Expenditures</u></b>				
Instruction	\$ 858,998	\$ 930,488	\$ (71,490)	(7.68) %
Support services	2,224,023	2,230,042	(6,019)	(0.27) %
Capital outlay	1,074,466	84,553	989,913	1,170.76 %
Debt service	<u>352,365</u>	<u>16,596</u>	<u>335,769</u>	2,023.19 %
 Total	 <u>\$ 4,509,852</u>	 <u>\$ 3,261,679</u>	 <u>\$ 1,248,173</u>	 38.27 %

***IDEA Part B Grant Fund***

The IDEA Part B Grant fund had \$1,555,660 in revenues and \$1,443,535 in expenditures. During fiscal year 2006, the IDEA Part B Grant fund's fund balance increased \$112,125 from \$10,616 to \$122,741.

***Title I Even Start Educational Agency Fund***

The Title I Even Start Educational Agency fund had \$198,542 in revenues and \$217,727 in expenditures. During fiscal year 2006, the Title I Even Start Educational Agency fund's fund balance decreased \$19,185 from \$30,462 to \$11,277.

***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 2006, the ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$2,931,992 and final budgeted revenues and other financing sources were \$2,798,907. Actual revenues and other financing sources for fiscal 2006 was \$3,004,633. This represents a \$205,726 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$4,546,228 were decreased to \$4,363,742 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$3,512,440, which was \$851,302 less than the final budget appropriations.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the ESC had \$4,217,147 invested in land, buildings and improvements, furniture and equipment, and vehicles, net of accumulated depreciation. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 156,000	
Building and improvements	3,836,169	\$ 253,104
Furniture and equipment	206,235	252,229
Vehicles	18,743	683
 Total	 \$ 4,217,147	 \$ 506,016

The overall increase in capital assets of \$3,711,131 is largely due to due to the ESC entering into a capital lease of a new facility to house administrative offices, as well as, a higher education facility with six flexible classrooms. A grant from the EDA and the Village of Ottawa contributed to a portion of the funding for the facility. The ESC is contributing funding to the project through a 25 year lease purchase agreement with the Village.

See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

***Debt Administration***

At June 30, 2006, the ESC had \$846,681 in capital lease obligations outstanding. Of this total, \$48,274 is due within one year and \$798,407 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2006	2005
Capital lease obligations	\$ 846,681	\$ 111,421

The increase in capital lease obligations is due to the ESC entering into a capital lease of a new facility. A grant from the EDA and the Village of Ottawa contributed to a portion of the funding for the facility. The ESC is contributing funding to the project through a 25 year lease purchase agreement with the Village.

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

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**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 it's 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.

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 are well regarded. All of the ESC's financial abilities will be needed to meet the financial challenges of the future.

**Contacting the ESC's Financial Management**

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



**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

		<b>Governmental Activities</b>
<hr/>		
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$	1,281,774
Receivables:		
Accounts		84,640
Intergovernmental		639,005
Capital assets:		
Land		156,000
Depreciable capital assets, net		4,061,147
Total assets		<u>6,222,566</u>
<b>Liabilities:</b>		
Accrued wages and benefits		478,014
Pension obligation payable		78,627
Intergovernmental payable		8,947
Accrued interest payable		3,311
Long-term liabilities:		
Due within one year		200,174
Due within more than one year		1,126,373
Total liabilities		<u>1,895,446</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt		3,370,466
Restricted for:		
Locally funded programs		8,036
State funded programs		8,576
Federally funded programs		622,809
Unrestricted		<u>317,233</u>
Total net assets	\$	<u><u>4,327,120</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
					<u>Governmental Activities</u>
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 469,462	\$ 183,011		\$ 60,291	\$ (226,160)
Special	806,499	1,850,558	\$ 3,266,207	329,194	4,639,460
Adult/continuing	82,146				(82,146)
Support services:					
Pupil	868,919			92,413	(776,506)
Instructional staff	1,536,593			362,144	(1,174,449)
Board of education	32,098			51,568	19,470
Administration	246,875			278,538	31,663
Fiscal	230,215			315,089	84,874
Operations and maintenance	77,000			2,317	(74,683)
Pupil transportation	53,081			1,817	(51,264)
Central	65,453			4,223	(61,230)
Operation of non-instructional services	96,371			1,183,940	1,087,569
Intergovernmental pass-through	1,475,047				(1,475,047)
Interest and fiscal charges	40,782				(40,782)
<b>Total governmental activities</b>	<u>\$ 6,080,541</u>	<u>\$ 2,033,569</u>	<u>\$ 3,266,207</u>	<u>\$ 2,681,534</u>	<u>1,900,769</u>
<b>General Revenues:</b>					
Grants and entitlements not restricted to specific programs					941,576
Investment earnings					43,918
Miscellaneous					55,312
<b>Total general revenues</b>					<u>1,040,806</u>
Change in net assets					2,941,575
<b>Net assets at beginning of year</b>					<u>1,385,545</u>
<b>Net assets at end of year</b>					<u>\$ 4,327,120</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<b>General</b>	<b>IDEA Part B Grants</b>	<b>Title I Even Start State Educational Agency Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents	\$ 1,206,595	\$ 39,287		\$ 35,892	\$ 1,281,774
Receivables:					
Accounts	84,640				84,640
Intergovernmental		249,520	\$ 145,377	244,108	639,005
Interfund receivable	29,091				29,091
Total assets	<u>\$ 1,320,326</u>	<u>\$ 288,807</u>	<u>\$ 145,377</u>	<u>\$ 280,000</u>	<u>\$ 2,034,510</u>
<b>Liabilities:</b>					
Accrued wages and benefits	\$ 446,592	\$ 2,282		\$ 29,140	\$ 478,014
Pension obligation payable	71,530	774		6,323	78,627
Intergovernmental payable	7,080	883	\$ 82	902	8,947
Interfund payable		12,338	1,829	14,924	29,091
Deferred revenue		149,789	132,189	113,266	395,244
Total liabilities	<u>525,202</u>	<u>166,066</u>	<u>134,100</u>	<u>164,555</u>	<u>989,923</u>
<b>Fund Balances:</b>					
Reserved for encumbrances	51,314	48,492	18,319	91,363	209,488
Unreserved, undesignated, reported in:					
General fund	743,810				743,810
Special revenue funds		74,249	(7,042)	24,082	91,289
Total fund balances	<u>795,124</u>	<u>122,741</u>	<u>11,277</u>	<u>115,445</u>	<u>1,044,587</u>
Total liabilities and fund balances	<u>\$ 1,320,326</u>	<u>\$ 288,807</u>	<u>\$ 145,377</u>	<u>\$ 280,000</u>	<u>\$ 2,034,510</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, 2006

**Total governmental fund balances** \$ 1,044,587

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

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 4,217,147

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

Intergovernmental revenue \$ 395,244

Total 395,244

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

Capital lease obligation 846,681

Compensated absences 479,866

Accrued interest payable 3,311

Total (1,329,858)

**Net assets of governmental activities** \$ 4,327,120

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, 2006**

	<u>General</u>	<u>IDEA Part B Grants</u>	<u>Title I Even Start State Educational Agency Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Tuition	\$ 98,426				\$ 98,426
Earnings on investments	43,918				43,918
Contract services	1,694,903				1,694,903
Other local revenues	295,440			\$ 112	295,552
Intergovernmental - Intermediate	80,000			7,943	87,943
Intergovernmental - State	787,242			369,177	1,156,419
Intergovernmental - Federal	74,334	\$ 1,555,660	\$ 198,542	764,601	2,593,137
<b>Total revenues</b>	<u>3,074,263</u>	<u>1,555,660</u>	<u>198,542</u>	<u>1,141,833</u>	<u>5,970,298</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	134,239			325,220	459,459
Special	724,759			61,232	785,991
Adult/continuing			62,402	19,744	82,146
Support services:					
Pupil	654,637		12,243	180,349	847,229
Instructional staff	1,081,026		28,466	402,484	1,511,976
Board of education	32,098				32,098
Administration	174,597		23,645	25,844	224,086
Fiscal	213,925			12,179	226,104
Operations and maintenance	66,020		8,000	5,500	79,520
Pupil transportation			6,514	42,540	49,054
Central	1,720		5,000	58,733	65,453
Operation of non-instructional services			71,457	24,914	96,371
Intergovernmental pass-through		1,443,535		31,512	1,475,047
Capital outlay	1,074,466				1,074,466
Debt service:					
Principal retirement	315,774			23,432	339,206
Interest and fiscal charges	36,591			1,276	37,867
<b>Total expenditures</b>	<u>4,509,852</u>	<u>1,443,535</u>	<u>217,727</u>	<u>1,214,959</u>	<u>7,386,073</u>
Excess of revenues over (under) expenditures	<u>(1,435,589)</u>	<u>112,125</u>	<u>(19,185)</u>	<u>(73,126)</u>	<u>(1,415,775)</u>
<b>Other financing sources:</b>					
Capital lease transaction	1,074,466				1,074,466
Net change in fund balances	(361,123)	112,125	(19,185)	(73,126)	(341,309)
<b>Fund balances at beginning of year</b>	<u>1,156,247</u>	<u>10,616</u>	<u>30,462</u>	<u>188,571</u>	<u>1,385,896</u>
<b>Fund balances at end of year</b>	<u>\$ 795,124</u>	<u>\$ 122,741</u>	<u>\$ 11,277</u>	<u>\$ 115,445</u>	<u>\$ 1,044,587</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, 2006**

<b>Net change in fund balances - total governmental funds</b>	\$	(341,309)
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*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 (\$3,788,503) exceeded depreciation expense (\$77,372) in the current period.		3,711,131
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		370,284
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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.		339,206
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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.		(1,074,466)
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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.		(2,915)
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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.		(60,356)
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<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>2,941,575</b>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2006

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 198,508
Receivables:	
Accounts	1,511
Intergovernmental	<u>35,765</u>
Total assets	<u><u>\$ 235,784</u></u>
<b>Liabilities:</b>	
Accounts payable	\$ 307
Accrued wages and benefits	7,818
Pension obligation payable	1,681
Due to other governments	<u>225,978</u>
Total liabilities	<u><u>\$ 235,784</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER**

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

The Governing Board consists of five members elected by the voters of the County. This board acts as the authorizing body for expenditures, policies and procedures, and approves all financial activities. The ESC is staffed by 50 certificated employees (including administrative) and 40 non-certificated employees to provide services to approximately 6,587 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 operations and preschool operations.

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



**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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.

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.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

*Title I: Even Start State Educational Agency Fund* - A special revenue fund used to account for grant monies to provide intensive family literacy services that involve parent and children and to assist children in reaching their full potential as learners.

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 COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 educational service centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed.

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

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

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

**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 2006, investments were limited to certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposits, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$43,918, which includes \$8,016 assigned from other funds.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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

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

**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 2006, the ESC maintained its capitalization threshold at \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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

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

**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, 2006, the ESC had \$29,091 of interfund receivables in the general fund and payable from various special revenue funds (see Note 5).

**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.

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, 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, 2006, 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 COUTNY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 first 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 2006.

**NOTE 3 - ACCOUNTING AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 3 - ACCOUNTING AND COMPLIANCE – (Continued)**

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47 did not have an effect on the financial statements of the ESC.

**B. Deficit Fund Balances**

Fund balances at June 30, 2006, included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Management Information System	\$ 4
Public School Preschool	8,674
Alternative Schools	44
IDEA Preschool - Handicapped	27

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim 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.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

**A. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all ESC deposits was \$1,480,282. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$500,000 of the ESC's bank balance of \$1,572,592 was covered by the Federal Deposit Insurance Corporation, while \$1,072,592 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC.

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

Cash and Investments per Note Disclosure:

Carrying amount of deposits	\$ 1,480,282
Total	<u>\$ 1,480,282</u>

Cash and Investments per Statement of Net Assets:

Governmental activities	\$ 1,281,774
Agency funds	<u>198,508</u>
Total	<u>\$ 1,480,282</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2006, consisted of the following interfund loans receivable and payable, as reported on the fund financial statements:

<u>Interfund loans receivable in the General fund from:</u>	<u>Amount</u>
IDEA Part B Grants fund	\$ 12,338
Title I: Even Start State Educational Agencies fund	1,829
Nonmajor Governmental funds	<u>14,924</u>
Total	<u>\$ 29,091</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS – (Continued)**

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, 2006 are reported on the Statement of Net Assets.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2006, consisted of accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the Statement of Net Assets is as follows:

<b><u>Governmental Activities:</u></b>	
Accounts	\$ 84,640
Intergovernmental	<u>639,005</u>
Total	<u>\$ 723,645</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>07/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
<b><u>Governmental Activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land		\$ 156,000		\$ 156,000
<i>Total capital assets, not being depreciated</i>		156,000		156,000
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	\$ 338,690	3,600,000		3,938,690
Equipment and furniture	810,551	10,416	\$ (16,388)	804,579
Vehicles	8,001	22,087		30,088
<i>Total capital assets, being depreciated</i>	1,157,242	3,632,503	(16,388)	4,773,357
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(85,586)	(16,935)		(102,521)
Equipment and furniture	(558,322)	(56,410)	16,388	(598,344)
Vehicles	(7,318)	(4,027)		(11,345)
<i>Total accumulated depreciation</i>	(651,226)	(77,372)	16,388	(712,210)
Governmental activities capital assets, net	\$ 506,016	\$ 3,711,131		\$ 4,217,147

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,014
Special	26,031
 <u>Support Services:</u>	
Pupil	8,016
Instructional staff	23,240
Administration	9,725
Fiscal	1,574
Operations and maintenance	2,745
Pupil transportation	4,027
Total depreciation expense	\$ 77,372

**NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2006, and in prior years, the ESC entered into lease agreements for a building, a modular classroom, and a postage machine. The terms of these lease agreements provide options to purchase the assets. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting For Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Governmental capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum payments as of the dates of their inception. A corresponding liability has been recorded and is presented as a component of long-term liabilities on the statement of net assets. During fiscal 2006, principal payments equaled \$339,206 and interest payments equaled \$37,867. 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, 2006:

<u>Year Ending June 30</u>	<u>Payments</u>
2007	\$ 91,356
2008	82,365
2009	82,365
2010	77,421
2011	62,589
2012 - 2016	312,945
2017 - 2021	312,945
2022 - 2026	<u>281,650</u>
Total future minimum lease payments	1,303,636
Less: amount representing interest	<u>(456,955)</u>
Present value of future minimum lease payments	<u>\$ 846,681</u>

The ESC does not have any capital lease obligations after fiscal year 2026.

**NOTE 9 - LONG-TERM OBLIGATIONS**

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

	<u>Balance</u> <u>07/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Capital lease obligation	\$ 111,421	\$ 1,074,466	\$ (339,206)	\$ 846,681	\$ 48,274
Compensated absences	<u>419,510</u>	<u>122,276</u>	<u>(61,920)</u>	<u>479,866</u>	<u>151,900</u>
Total long-term obligations,	<u>\$ 530,931</u>	<u>\$ 1,196,742</u>	<u>\$ (401,126)</u>	<u>\$ 1,326,547</u>	<u>\$ 200,174</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - RISK MANAGEMENT**

**A. Risk Pool Membership**

The ESC is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 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
- Commercial Umbrella
- Vehicle

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

The ESC paid \$10,249 in premiums to the pool for fiscal year 2006 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 claims review and processing. The ESC maintains stop-loss coverage for its medical insurance program. Aggregate stop loss is maintained for expected claims.

**C. Workers' Compensation**

For fiscal year 2006, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - RISK MANAGEMENT – (Continued)**

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

**NOTE 11 - PENSION PLANS**

**A. School Employees Retirement System**

The ESC contributes to the School Employees Retirement System (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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS’ website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. 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 statutory maximum amounts, by the SERS’ Retirement Board. The ESC’s required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004, were \$122,692, \$119,690, and \$62,882, respectively. 100 percent has been contributed for fiscal years 2006, 2005, and 2004. There is no unpaid contribution for fiscal year 2006, and there is no liability recorded within the respective funds.

**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 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 11 - PENSION PLANS – (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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, 2006, 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 contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$343,158, \$334,586, and \$297,836, respectively. 100 percent has been contributed for fiscal years 2006, 2005, and 2004. There is no unpaid contribution for fiscal year 2006, and there is no liability recorded within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$83 made by the ESC and \$1,410 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board have elected Social Security. The ESC's liability is 6.2% of wages paid.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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 the 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 the 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 DB or combined plans and their dependents are eligible for health care coverage. The STRS 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 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, 2006, 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 \$26,397 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), 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 fiscal 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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$57,254 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 13 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**EDUCATIONAL SERVICE CENTER  
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**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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Tuition	\$ 109,000	\$ 91,687	\$ 98,426	\$ 6,739
Contract services	1,470,421	1,500,060	1,610,318	110,258
Earnings on investments	35,000	37,770	40,546	2,776
Other local revenues	130,000	275,174	295,400	20,226
Intergovernmental - Intermediate	80,000	74,523	80,000	5,477
Intergovernmental - State	1,039,204	733,340	787,242	53,902
Intergovernmental - Federal	50,000	69,244	74,334	5,090
Total revenue	<u>2,913,625</u>	<u>2,781,798</u>	<u>2,986,266</u>	<u>204,468</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	174,304	167,264	135,492	31,772
Special	922,872	885,668	716,096	169,572
Support services:				
Pupil	866,470	831,585	671,467	160,118
Instructional staff	1,380,182	1,324,593	1,069,962	254,631
Board of education	61,792	59,609	42,012	17,597
Administration	304,376	292,455	229,436	63,019
Fiscal	279,211	267,939	216,971	50,968
Operations and maintenance	516,473	495,702	399,793	95,909
Central	3,127	3,017	2,120	897
Total expenditures	<u>4,508,807</u>	<u>4,327,832</u>	<u>3,483,349</u>	<u>844,483</u>
Excess of expenditures over revenues	<u>(1,595,182)</u>	<u>(1,546,034)</u>	<u>(497,083)</u>	<u>1,048,951</u>
<b>Other financing sources (uses):</b>				
Advances in	18,367	17,109	18,367	1,258
Advances (out)	(37,421)	(35,910)	(29,091)	6,819
Total other financing sources (uses)	<u>(19,054)</u>	<u>(18,801)</u>	<u>(10,724)</u>	<u>8,077</u>
Net change in fund balance	(1,614,236)	(1,564,835)	(507,807)	1,057,028
<b>Fund balance at beginning of year</b>	1,635,097	1,635,097	1,635,097	
<b>Prior year encumbrances appropriated</b>	27,991	27,991	27,991	
<b>Fund balance at end of year</b>	<u>\$ 48,852</u>	<u>\$ 98,253</u>	<u>\$ 1,155,281</u>	<u>\$ 1,057,028</u>

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**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, 2006**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>				
Intergovernmental - Federal	\$ 1,087,290	\$ 1,738,690	\$ 1,476,833	\$ (261,857)
<b>Expenditures:</b>				
Current:				
Instruction:				
Special	615,554	981,682	817,826	163,856
Other	188	300	300	
Support services:				
Pupil	205,432	327,622	305,129	22,493
Instructional staff	223,132	355,849	305,260	50,589
Administration	20,522	32,728	32,728	
Fiscal	11,252	17,945	17,924	21
Operations and maintenance	1,128	1,800	1,800	
Pupil transportation	426	679	679	
Operation of non-instructional services	17,535	27,964	24,609	3,355
Total expenditures	<u>1,095,169</u>	<u>1,746,569</u>	<u>1,506,255</u>	<u>240,314</u>
Excess of expenditures over revenues	<u>(7,879)</u>	<u>(7,879)</u>	<u>(29,422)</u>	<u>(21,543)</u>
<b>Other financing sources:</b>				
Advances in			12,338	12,338
Total other financing sources			<u>12,338</u>	<u>12,338</u>
Net change in fund balance	(7,879)	(7,879)	(17,084)	(9,205)
<b>Fund balance at beginning of year</b>	(11,442)	(11,442)	(11,442)	
<b>Prior year encumbrances appropriated</b>	<u>19,321</u>	<u>19,321</u>	<u>19,321</u>	
<b>Fund deficit at end of year</b>	<u><u>(9,205)</u></u>	<u><u>(9,205)</u></u>	<u><u>\$ (9,205)</u></u>	<u><u>\$ (9,205)</u></u>

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
TITLE I EVEN START STATE EDUCATIONAL AGENCY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
<b>Revenues:</b>				
Intergovernmental - Federal	\$ 310,279	\$ 329,310	\$ 185,354	\$ (143,956)
<b>Expenditures:</b>				
Current:				
Instruction:				
Adult/continuing	79,751	80,259	54,828	25,431
Support services:				
Pupil	22,480	22,623	15,454	7,169
Instructional staff	53,496	53,837	36,777	17,060
Administration	34,667	34,888	23,833	11,055
Operations and maintenance	11,637	11,711	8,000	3,711
Pupil transportation	11,101	11,172	7,632	3,540
Central	14,546	14,639	10,000	4,639
Operation of non-instructional services	92,632	93,224	63,684	29,540
Total expenditures	<u>320,310</u>	<u>322,353</u>	<u>220,208</u>	<u>102,145</u>
Excess of revenues over (under) expenditures	<u>(10,031)</u>	<u>6,957</u>	<u>(34,854)</u>	<u>(41,811)</u>
<b>Other financing sources:</b>				
Refund of prior year expenditure	(24,754)	(24,912)	(17,018)	7,894
Advances in	3,061	3,249	1,829	(1,420)
Total other financing sources	<u>(21,693)</u>	<u>(21,663)</u>	<u>(15,189)</u>	<u>6,474</u>
Net change in fund balance	(31,724)	(14,706)	(50,043)	(35,337)
<b>Fund balance at beginning of year</b>	(1,721)	(1,721)	(1,721)	
<b>Prior year encumbrances appropriated</b>	33,445	33,445	33,445	
<b>Fund balance (deficit) at end of year</b>	<u><u>\$ 17,018</u></u>	<u><u>\$ (18,319)</u></u>	<u><u>\$ (35,337)</u></u>	

SEE ACCOMPANYING NOTES TO SUPPLEMENTAL INFORMATION

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006**

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

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

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue funds are as follows:

**Net Change in Fund Balance**

	<u>General</u>	IDEA <u>Part B Grant</u>	Title I - Even Start State <u>Educational Agency</u>
Budget basis	\$ (507,807)	\$ (17,084)	\$ (50,043)
Net adjustment for revenue accruals	87,997	78,827	13,188
Net adjustment for expenditure accruals	(1,077,817)	14,228	(15,838)
Net adjustment for other sources/uses	1,085,190	(12,338)	15,189
Adjustment for encumbrances	<u>51,314</u>	<u>48,492</u>	<u>18,319</u>
GAAP basis	<u>\$ (361,123)</u>	<u>\$ 112,125</u>	<u>\$ (19,185)</u>

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDING JUNE 30, 2006**

<b>FEDERAL GRANTOR</b> <i>Pass through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
<b>UNITED STATES DEPARTMENT OF JUSTICE</b>				
<i>Passed Through Ohio Department of Youth Services</i>				
Juvenile Justice and Delinquency Prevention Grant	16.540	2005-JJ-DP2-0061	\$ 10,794	\$ 14,460
<i>Passed Through Ohio Office of Criminal Justice Services</i>				
Edward Byrne Memorial Formula Grant Program	16.579	2001-DG-BOV-7508	1,350	1,350
Total Department of Justice			12,144	15,810
<b>UNITED STATES DEPARTMENT OF TRANSPORTATION</b>				
<i>Passed Through Ohio Department of Public Safety</i>				
State and Community Highway Safety	20.600	2005-69-00-00-00531	12,166	5,751
		2006-69-00-00-00531	8,702	8,702
Total Department of Transportation			20,868	14,453
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
Twenty-First Century Community Learning Centers	84.287	049304-T1S1-05	37,329	48,977
		049304-T1S1-06	364,970	359,241
Total Twenty-First Century Community Learning Centers			402,299	408,218
Adult Education - State Grant Program	84.002	049304-AB-S1-05	7,383	9,662
		049304-AB-S1-06	17,077	15,919
Total Adult Education - State Grant Program			24,460	25,581
Migrant Education - Basic State Grant Program	84.011	MGS1-05	98,251	106,858
		MGS1-06	25,326	20,514
Total Migrant Education - Basic State Grant Program			123,577	127,372
<u>Special Education Cluster</u>				
Special Education - Grants to States	84.027		1,400	1,400
		049304-6B-SA-05	10,907	13,133
		049304-6B-SA-06	17,022	17,022
		049304-6B-SD-05	10,123	11,942
		049304-6B-SD-06	28,247	28,066
		049304-6B-SF-05		3,834
		049304-6B-SF-06	996,026	976,519
		049304-6B-II-06	413,108	393,509
Total Special Education - Grants to States			1,476,833	1,445,425
Special Education - Preschool Grant	84.173	049304-PGS1-05		229
		049304-PGS1-06	31,483	31,483
Total Special Education - Preschool Grant			31,483	31,712
Total Special Education Cluster			1,508,316	1,477,137

(Continued)

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

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

<b>FEDERAL GRANTOR</b> <i>Pass through Grantor</i>	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
Program Title				
LEP Consortium Grant	84.365	045930-T3-S1-2006	9,850	9,850
Even Start - State Educational Agencies	84.213	049304-EVS1-04		31,724
		049304-EVS1-05	185,354	185,354
Total Even Start - State Educational Agencies			185,354	217,078
Total Department of Education			2,253,856	2,265,236
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>				
<i>Passed Through Ohio Department of Education</i>				
Learn and Serve America - School and Community Based Programs	94.004	049304-SVS1-05	3,000	3,000
	94.004	049304-SVS1-06	2,362	2,362
Total Learn and Serve America - School and Community Based Programs			5,362	5,362
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>				
State Children's Insurance Program (SCHIP)	93.767	6900134	7,189	7,189
Medical Assistance Program (CAFS)	93.778	6900134	67,145	67,145
<b>Direct Assistance</b>				
Drug Free Communities Support Program Grants	93.276	H79-SP13097-01	66,584	66,584
		2005JNFX0051	3,077	3,224
		2006JNFX0051	27,699	27,699
Total Drug Free Communities Support Program Grant			97,360	97,507
Total Department of Health and Human Services			171,694	171,841
<b>UNITED STATES DEPARTMENT OF LABOR</b>				
<i>Passed Through Putnam County Jobs and Family Services</i>				
Workforce Investment Act Youth Activities	17.259		3,203	3,203
			36,202	36,202
Total Department of Labor			39,405	39,405
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$ 2,503,329</b>	<b>\$ 2,512,107</b>

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



**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - MATCHING REQUIREMENTS**

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

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# Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Putnam County Educational Service Center, Putnam County, Ohio (the ESC) as of and for the year ended June 30, 2006, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 25, 2007. 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 to express our opinions 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 January 25, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the ESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the ESC's management dated January 25, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 25, 2007



# Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

### Compliance

We have audited the compliance of the Putnam County Educational Service Center, Putnam County, Ohio (the ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2006. 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, Putnam County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

### 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, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 25, 2007

**EDUCATIONAL SERVICE CENTER  
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

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







**Mary Taylor, CPA**  
Auditor of State

**EDUCATIONAL SERVICE CENTER**

**PUTNAM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 15, 2007**