



**Auditor of State
Betty Montgomery**

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Putnam County Educational Service Center (the Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2004 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

February 9, 2004

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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

| | <u>Governmental Fund Types</u> | | |
|--|--------------------------------|----------------------------|-----------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> |
| ASSETS AND OTHER DEBITS | | | |
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$1,655,726 | \$77,506 | \$40,317 |
| Receivables: | | | |
| Accounts | 23,690 | | |
| Accrued interest | 4,150 | | |
| Interfund loan receivable | 66,954 | | |
| Due from other governments | | 363,558 | |
| Property, plant and equipment | | | |
| Other debits: | | | |
| Amount to be provided for retirement of general long-term obligations | | | |
| Total assets and other debits | <u>\$1,750,520</u> | <u>\$441,064</u> | <u>\$40,317</u> |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | |
| Liabilities: | | | |
| Accounts payable | \$1,135 | | |
| Accrued wages and benefits | 413,069 | \$5,160 | |
| Compensated absences payable | 16,969 | 91 | |
| Pension obligation payable | 53,971 | 608 | |
| Interfund loan payable | | 66,954 | |
| Deferred revenue | | 182,852 | |
| Due to other governments | 13,294 | 2,891 | \$29 |
| Capital lease obligation payable | | | |
| Total liabilities | <u>498,438</u> | <u>258,556</u> | <u>29</u> |
| Equity and other credits: | | | |
| Investment in general fixed assets | | | |
| Fund balances: | | | |
| Reserved for encumbrances | 47,229 | 65,799 | 3,648 |
| Unreserved-undesignated | 1,204,853 | 116,709 | 36,640 |
| Total equity and other credits | <u>1,252,082</u> | <u>182,508</u> | <u>40,288</u> |
| Total liabilities, equity and other credits | <u>\$1,750,520</u> | <u>\$441,064</u> | <u>\$40,317</u> |

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

| Fiduciary Fund Type | Account Groups | | Total (Memorandum Only) |
|------------------------|----------------------------|-------------------------------------|-------------------------------|
| | General Fixed Assets | General Long-Term Obligations | |
| Agency | | | |
| \$21,810 | | | \$1,795,359 |
| | | | 23,690 |
| | | | 4,150 |
| | | | 66,954 |
| | | | 363,558 |
| | \$1,462,386 | | 1,462,386 |
| | | \$485,211 | 485,211 |
| \$21,810 | \$1,462,386 | \$485,211 | \$4,201,308 |
| | | | \$1,135 |
| | | | 418,229 |
| | | \$347,488 | 364,548 |
| | | 6,406 | 60,985 |
| | | | 66,954 |
| | | | 182,852 |
| \$21,810 | | | 38,024 |
| | | 131,317 | 131,317 |
| 21,810 | | 485,211 | 1,264,044 |
| | \$1,462,386 | | 1,462,386 |
| | | | 116,676 |
| | | | 1,358,202 |
| | 1,462,386 | | 2,937,264 |
| \$21,810 | \$1,462,386 | \$485,211 | \$4,201,308 |

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | <u>Governmental Fund Types</u> | | | Total (Memorandum Only) |
|--|--------------------------------|----------------------------|-----------------------------|--|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Tuition | \$47,428 | | | \$47,428 |
| Contract services | 1,790,464 | | | 1,790,464 |
| Earnings on investments | 55,950 | | | 55,950 |
| Other local revenues | 218,267 | \$71 | | 218,338 |
| Other revenue | 80,000 | | | 80,000 |
| Intergovernmental - State | 888,348 | 672,322 | \$46,200 | 1,606,870 |
| Intergovernmental - Federal | 96,256 | 1,005,756 | | 1,102,012 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 3,176,713 | 1,678,149 | 46,200 | 4,901,062 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 111,422 | 350,060 | | 461,482 |
| Special | 809,937 | 47,869 | | 857,806 |
| Other | 122 | 12,082 | | 12,204 |
| Support services: | | | | |
| Pupil | 812,287 | 187,177 | | 999,464 |
| Instructional staff | 1,171,405 | 334,389 | 5,912 | 1,511,706 |
| Board of Education | 37,647 | | | 37,647 |
| Administration | 160,609 | 45,534 | | 206,143 |
| Fiscal | 115,358 | 46,725 | | 162,083 |
| Operations and maintenance | 10,746 | 56,397 | | 67,143 |
| Pupil transportation | | 17,279 | | 17,279 |
| Central | 555 | 230 | 1,000 | 1,785 |
| Community services | | 24,142 | | 24,142 |
| Intergovernmental pass-through | | 544,114 | | 544,114 |
| Debt service: | | | | |
| Principal retirement | 10,017 | 25,729 | | 35,746 |
| Interest and fiscal charges | 3,080 | 7,368 | | 10,448 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 3,243,185 | 1,699,095 | 6,912 | 4,949,192 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess of revenues over (under) expenditures | (66,472) | (20,946) | 39,288 | (48,130) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances, July 1 | 1,318,554 | 203,454 | 1,000 | 1,523,008 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances, June 30 | <u>\$1,252,082</u> | <u>\$182,508</u> | <u>\$40,288</u> | <u>\$1,474,878</u> |

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

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| | General | | |
|--|---------------------------|---------------------------|--|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | |
| From local sources: | | | |
| Tuition | \$35,500 | \$47,503 | \$12,003 |
| Contract services | 1,943,393 | 1,766,774 | (176,619) |
| Earnings on investments | 70,000 | 57,651 | (12,349) |
| Other local revenues | 215,000 | 218,267 | 3,267 |
| Other revenue | | 80,000 | 80,000 |
| Intergovernmental - State | 972,320 | 900,525 | (71,795) |
| Intergovernmental - Federal | 40,000 | 96,256 | 56,256 |
| Total revenues | <u>3,276,213</u> | <u>3,166,976</u> | <u>(109,237)</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 199,808 | 110,610 | 89,198 |
| Special | 1,212,360 | 814,124 | 398,236 |
| Other | 40 | 40 | |
| Support services: | | | |
| Pupil | 1,099,712 | 809,487 | 290,225 |
| Instructional staff | 1,811,152 | 1,192,590 | 618,562 |
| Board of Education | 90,846 | 42,466 | 48,380 |
| Administration | 368,994 | 173,810 | 195,184 |
| Fiscal | 167,359 | 114,946 | 52,413 |
| Operations and maintenance | 71,581 | 13,355 | 58,226 |
| Pupil transportation | | | |
| Central | 5,400 | 4,100 | 1,300 |
| Community services | | | |
| Total expenditures | <u>5,027,252</u> | <u>3,275,528</u> | <u>1,751,724</u> |
| Excess of revenues over (under) expenditures | <u>(1,751,039)</u> | <u>(108,552)</u> | <u>1,642,487</u> |
| Other financing sources (uses): | | | |
| Advances in | 24,887 | 24,887 | |
| Advances out | (30,000) | (66,954) | (36,954) |
| Refund of prior year receipts | | (82) | (82) |
| Total other financing sources (uses) | <u>(5,113)</u> | <u>(42,149)</u> | <u>(37,036)</u> |
| Excess of revenues and other financing sources over (under) expenditures and other financing (uses) | <u>(1,756,152)</u> | <u>(150,701)</u> | <u>1,605,451</u> |
| Fund balances, July 1 | 1,719,814 | 1,719,814 | |
| Prior year encumbrances appropriated | 36,641 | 36,641 | |
| Fund balances, June 30 | <u>\$303</u> | <u>\$1,605,754</u> | <u>\$1,605,451</u> |

(Continued)

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| | Special Revenue | | |
|--|---------------------------|------------------------|--|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | |
| From local sources: | | | |
| Tuition | | | |
| Contract services | | | |
| Earnings on investments | | | |
| Other local revenues | | | |
| Other revenue | | | |
| Intergovernmental - State | \$665,050 | \$668,122 | \$3,072 |
| Intergovernmental - Federal | 1,301,573 | 936,107 | (365,466) |
| Total revenues | <u>1,966,623</u> | <u>1,604,229</u> | <u>(362,394)</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 369,557 | 365,416 | 4,141 |
| Special | 529,382 | 391,269 | 138,113 |
| Other | 12,720 | 12,069 | 651 |
| Support services: | | | |
| Pupil | 327,530 | 269,983 | 57,547 |
| Instructional staff | 573,463 | 481,156 | 92,307 |
| Board of Education | | | |
| Administration | 54,914 | 48,501 | 6,413 |
| Fiscal | 57,897 | 51,056 | 6,841 |
| Operations and maintenance | 85,902 | 81,180 | 4,722 |
| Pupil transportation | 36,249 | 23,450 | 12,799 |
| Central | 2,137 | 264 | 1,873 |
| Community services | 52,536 | 46,964 | 5,572 |
| Total expenditures | <u>2,102,287</u> | <u>1,771,308</u> | <u>330,979</u> |
| Excess of revenues over (under) expenditures | <u>(135,664)</u> | <u>(167,079)</u> | <u>(31,415)</u> |
| Other financing sources (uses): | | | |
| Advances in | | 66,954 | 66,954 |
| Advances out | | (24,887) | (24,887) |
| Refund of prior year receipts | (477) | (477) | |
| Total other financing sources (uses) | <u>(477)</u> | <u>41,590</u> | <u>42,067</u> |
| Excess of revenues and other financing sources over (under) expenditures and other financing (uses) | <u>(136,141)</u> | <u>(125,489)</u> | <u>10,652</u> |
| Fund balances, July 1 | 104,770 | 104,770 | |
| Prior year encumbrances appropriated | 32,426 | 32,426 | |
| Fund balances, June 30 | <u>\$1,055</u> | <u>\$11,707</u> | <u>\$10,652</u> |

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

| Capital Projects | | | Total (Memorandum only) | | |
|------------------|-----------------|---|-------------------------|--------------------|---|
| Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| | | | \$35,500 | \$47,503 | \$12,003 |
| | | | 1,943,393 | 1,766,774 | (176,619) |
| | | | 70,000 | 57,651 | (12,349) |
| | | | 215,000 | 218,267 | 3,267 |
| | | | | 80,000 | 80,000 |
| \$47,400 | \$47,400 | | 1,684,770 | 1,616,047 | (68,723) |
| | | | 1,341,573 | 1,032,363 | (309,210) |
| 47,400 | 47,400 | | 5,290,236 | 4,818,605 | (471,631) |
| | | | 569,365 | 476,026 | 93,339 |
| | | | 1,741,742 | 1,205,393 | 536,349 |
| | | | 12,760 | 12,109 | 651 |
| 47,400 | 10,731 | \$36,669 | 1,427,242 | 1,079,470 | 347,772 |
| | | | 2,432,015 | 1,684,477 | 747,538 |
| | | | 90,846 | 42,466 | 48,380 |
| | | | 423,908 | 222,311 | 201,597 |
| | | | 225,256 | 166,002 | 59,254 |
| | | | 157,483 | 94,535 | 62,948 |
| | | | 36,249 | 23,450 | 12,799 |
| 1,000 | 1,000 | | 8,537 | 5,364 | 3,173 |
| | | | 52,536 | 46,964 | 5,572 |
| 48,400 | 11,731 | 36,669 | 7,177,939 | 5,058,567 | 2,119,372 |
| (1,000) | 35,669 | 36,669 | (1,887,703) | (239,962) | 1,647,741 |
| | | | 24,887 | 91,841 | 66,954 |
| | | | (30,000) | (91,841) | (61,841) |
| | | | (477) | (559) | (82) |
| | | | (5,590) | (559) | 5,031 |
| (1,000) | 35,669 | 36,669 | (1,893,293) | (240,521) | 1,652,772 |
| 1,000 | 1,000 | | 1,825,584 | 1,825,584 | |
| | | | 69,067 | 69,067 | |
| | \$36,669 | \$36,669 | \$1,358 | \$1,654,130 | \$1,652,772 |

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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. DESCRIPTION OF THE ENTITY

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

The Governing Board consists of five members elected by the voters of the County. This board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 36 non-certificated employees and 50 certificated employees (including administrative) to provide services to approximately 6,902 students in 9 districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. The Reporting Entity

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

West Central Regional Professional Development Center

The West Central Regional Professional Development Center (RPDC) is one of twelve centers established by the Ohio Department of Education to develop a regional system of professional development across Ohio. RPDC provides services for the educators of Allen, Auglaize, Hancock,

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

Hardin, Mercer, Paulding, Putnam, and Van Wert counties. Financial information can be obtained from the Treasurer of the Hancock County ESC, at 7746 CR 140, Findlay, Ohio 45840

Millstream Career Cooperative

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

ACCOUNT GROUPS

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

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

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

C. Measurement Focus/Basis of Accounting

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

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

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

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Budgetary Process

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

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

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

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

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

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

APPROPRIATIONS

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

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

alter the total of any fund appropriation, or alter total function appropriations within the fund, or alter object appropriations within functions, must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2003.

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

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

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During 2003, investments were limited to non-negotiable certificates of deposit, a U.S. government money market mutual fund, and federal agency securities.

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

Under existing Ohio statutes, all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2003 totaled \$55,950 which included \$4,619 assigned from other funds of the District.

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

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

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

F. Fixed Assets and Depreciation

General Fixed Assets Account Group

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

G. Compensated Absences

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

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

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

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

H. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources; however, compensated absences that will be paid from governmental funds are reported as liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 60 days after fiscal year-end are considered not to have used current, available financial resources. Capital leases obligations are reported as a liability of the general long-term obligations account group until due.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

I. Fund Equity

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

J. Interfund Transactions

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

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

An analysis of the ESC's interfund transactions for fiscal year 2003 is presented in Note 5.

K. Estimates

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

L. Memorandum Only - Total Columns

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

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

3. ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

| <u>Special Revenue Funds</u> | <u>Deficit Balance</u> |
|----------------------------------|------------------------|
| Management Information Systems | \$ 16 |
| EHA Preschool Grants/Handicapped | 76 |
| Miscellaneous Federal Grants | 5,838 |

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

B. Agency Funds

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

| <u>Assets</u> | |
|----------------------------|----------|
| Accounts receivable | \$27,694 |
| Due from other governments | 22,908 |

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits: At fiscal year-end the carrying amount of the ESC's deposits was \$1,399,709 and the bank balance was \$1,760,134 (both amounts include non-negotiable certificates of deposit). Of the bank balance:

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

1. \$600,000 was covered by federal depository insurance; and
2. \$1,160,134 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

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

| | Category of Risk | |
|--|-------------------|-------------------|
| | 2 | Fair Value |
| Federal agency securities | \$ 378,040 | \$ 378,040 |
| Not subject to categorization: | | |
| U.S. Government money market mutual fund | - | 17,610 |
| Total investments | <u>\$ 378,040</u> | <u>\$ 395,650</u> |

The federal agency securities have maturity dates ranging from January 28, 2004 through April 28, 2005.

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

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

| | Cash and Cash | |
|--|---------------------|--------------------|
| | <u>Equivalents</u> | <u>Investments</u> |
| GASB Statement No. 9 | \$ 1,795,359 | \$ - |
| Investments of the cash management pool: | | |
| Federal agency securities | (378,040) | 378,040 |
| U.S. Government money market mutual fund | <u>(17,610)</u> | <u>17,610</u> |
| GASB Statement No. 3 | <u>\$ 1,399,709</u> | <u>\$ 395,650</u> |

5. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2003 consist of the following interfund loans receivable and/or payable:

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| | <u>Interfund Loans Receivable</u> | <u>Interfund Loans Payable</u> |
|------------------------------|---------------------------------------|------------------------------------|
| General Fund | \$ 66,954 | \$ - |
| Special Revenue Funds | | |
| IDEA Part B Grants | - | 44,085 |
| Juvenile Justice | - | 3,348 |
| Miscellaneous Federal Grants | - | 19,521 |
| Total Interfund Loans | <u>\$ 66,954</u> | <u>\$ 66,954</u> |

6. RECEIVABLES

Receivables at June 30, 2003 consisted of accounts, accrued interest, interfund loans, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables follows:

| | <u>Amounts</u> |
|----------------------------|----------------|
| General Fund: | |
| Accounts | \$ 23,690 |
| Interfund loan | 66,954 |
| Special Revenue Funds: | |
| Due from other governments | 363,558 |

7. FIXED ASSETS

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

| | <u>Balance 07/01/02</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 06/30/03</u> |
|------------------------|-----------------------------|------------------|-------------------|-----------------------------|
| Buildings/improvements | \$ 338,690 | \$ - | \$ - | \$ 338,690 |
| Furniture/equipment | 1,195,620 | 42,559 | 129,884 | 1,108,295 |
| Vehicles | 15,401 | - | - | 15,401 |
| Total | <u>\$ 1,549,711</u> | <u>\$ 42,559</u> | <u>\$ 129,884</u> | <u>\$ 1,462,386</u> |

8. CAPITALIZED LEASES - LESSEE DISCLOSURE

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

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

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(Continued)

These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$194,064, which is equal to the present value of the future minimum payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2003 fiscal year totaled \$35,746. This amount is reflected as debt service principal retirement in the general fund and special revenue funds.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003:

| General Long-Term Obligations | |
|---|-------------------|
| Year Ending June 30 | Equipment |
| 2004 | \$ 46,194 |
| 2005 | 46,194 |
| 2006 | 41,801 |
| 2007 | 12,575 |
| Total future minimum lease payments | 146,764 |
| Less: amount representing interest | 15,447 |
| Present value of future minimum lease payment | <u>\$ 131,317</u> |

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

9. LONG-TERM OBLIGATIONS

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences and the pension benefit obligation will ultimately be paid from the fund from which the employee is paid.

| | Balance 07/01/02 | Increase | Decrease | Balance 06/30/03 |
|----------------------------|---------------------|-----------------|------------------|---------------------|
| Compensated absences | \$ 352,928 | \$ - | \$ 5,440 | \$ 347,488 |
| Pension benefit obligation | 5,763 | 6,406 | 5,763 | 6,406 |
| Capital lease obligation | 167,063 | - | 35,746 | 131,317 |
| Total | <u>\$ 525,754</u> | <u>\$ 6,406</u> | <u>\$ 46,949</u> | <u>\$ 485,211</u> |

10. RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the ESC contracted with the Ohio Schools Risk Sharing Authority for the following insurance coverages:

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

| | |
|--|-------------|
| General Liability: | |
| Per occurrence | \$3,000,000 |
| Per year | 5,000,000 |
| Fire Legal Liability | 500,000 |
| Medical Payments: | |
| Per occurrence | 1,000 |
| Per year | 5,000 |
| Educators' Legal Liability: | |
| Errors or Omissions Cover | 3,000,000 |
| Automobile Liability: | |
| Owned/leased Vehicles | 3,000,000 |
| Hired and Non-Owned Liability | Included |
| Medical Payments: | |
| Per occurrence | 1,000 |
| Per year | 5,000 |
| Uninsured Motorist | 50,000 |
| Automobile Physical Damage | 100,000 |
| Property - Catastrophic Coverage (Includes Inland Marine, Miscellaneous Equipment, and Automobile Physical Damage) | 416,750 |
| Crime Coverage (Includes Employee Dishonesty, Faithful performance of Duty, Forgery or Alteration, Computer Fraud, Theft, Disappearance, and Destruction) | 50,000 |

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

B. Employee Group Health, Dental and Prescription Drugs

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

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

C. Workers' Compensation

For fiscal year 2003, 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

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14 percent for 2003, 8.17 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$72,532, \$37,176, and \$26,376, respectively; 78.6 percent has been contributed for fiscal years 2003, 2002 and 2001.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC is 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 employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$294,838, \$196,167, and \$179,016, respectively; 100 percent has been contributed for fiscal years 2003, 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$22,680 during fiscal 2003.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003 (Continued)

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$57,596 during the 2003 fiscal year.

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 at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits.

13. BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

| | Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | | |
|--|--|--------------------|---------------------|
| | Governmental Fund Types | | |
| | General | Special Revenue | Capital Projects |
| Budget basis | \$ (150,701) | \$ (125,489) | \$ 35,669 |
| Net adjustment for revenue accruals | 9,737 | 73,920 | (1,200) |
| Net adjustment for expenditure accruals | (16,421) | 6,414 | 1,171 |
| Net adjustment for other financing sources/(uses) | 42,149 | (41,590) | |
| Encumbrances (budget basis) | <u>48,764</u> | <u>65,799</u> | <u>3,648</u> |
| GAAP basis | <u>\$ (66,472)</u> | <u>\$ (20,946)</u> | <u>\$ 39,288</u> |

14. CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2003.

B. Litigation

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

C. School Funding Decision

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

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

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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDING JUNE 30, 2003**

| FEDERAL GRANTOR Pass-through Grantor Program Title | Federal CFDA Number | Pass-Through Entity's Number | Receipts | Disbursements |
|---|------------------------------------|---|-----------------------|-----------------------|
| UNITED STATES DEPARTMENT OF JUSTICE | | | | |
| Pass Through Ohio Department of Youth Services | | | | |
| Juvenile Justice and Delinquency Prevention Grant | 16.540 | 2002-JJ-DP-0061 | \$8,095 | \$2,219 |
| Direct Assistance | | | | |
| Drug Free Communities Support Program Grants | 16.729 | 2001JNFX0051 | 208 | 173 |
| | | 2002JNFX0051 | 48,418 | 44,962 |
| | | 2003JNFX0051 | 57,966 | 61,263 |
| Total Drug Free Communities Support Program Grant | | | <u>106,592</u> | <u>106,398</u> |
| Total Department of Justice | | | <u>114,687</u> | <u>108,617</u> |
| NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION | | | | |
| Passed Through Ohio Department of Public Safety | | | | |
| State and Community Highway Safety | 20.600 | 1441 | 17,157 | 7,615 |
| | | 1720.2 | 19,672 | 29,393 |
| Total State and Community Highway Safety | | | <u>36,829</u> | <u>37,008</u> |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | |
| Direct Assistance | | | | |
| Twenty-first Century Community Learning Centers | 84.287 | 990148 | 68,158 | 88,882 |
| Passed Through Ohio Department of Education | | | | |
| Adult Basic Literacy Grant | 84.002 | 049304-AB-S1-03 | 12,600 | 12,600 |
| Migrant Education - Basic State Grant Program | 84.011 | MGS1-02 | 60,296 | 96,575 |
| | | MGS1-03 | 53,279 | 21,106 |
| Total Migrant Education - Basic State Grant Program | | | <u>113,575</u> | <u>117,681</u> |
| Special Education Cluster | | | | |
| Special Education - Grants to States | 84.027 | 049304-6B-SF-02P | 10,080 | 10,080 |
| | | 049304-6B-SF-03P | 375,238 | 397,094 |
| | | 049304-6B-II-02P | | 19,383 |
| | | 049304-6B-II-03P | 46,922 | 69,151 |
| | | 049304-6B-SA-03P | 10,961 | 3,189 |
| | | 049304-6B-SD-03P | 14,552 | 800 |
| | | 049304-ASL-03 | 15,000 | 21,306 |
| Total Special Education - Grants to States | | | <u>472,753</u> | <u>521,003</u> |
| Special Education - Preschool Grant | 84.173 | PGS1-03P | 23,111 | 23,111 |
| Total Special Education Cluster | | | <u>495,864</u> | <u>544,114</u> |
| Community Service Grant | 84.184C | 049304-T4S1-03 | 4,324 | 3,757 |
| Safe and Drug Free Schools and Communities State Grant | 84.186 | DRS1-01 | - | 225 |

(Continued)

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDING JUNE 30, 2003
(Continued)

| FEDERAL GRANTOR Pass-through Grantor Program Title | Federal CFDA Number | Pass-Through Entity's Number | Receipts | Disbursements |
|---|------------------------------------|---|---------------------------|---------------------------|
| <i>Passed Through Ohio Department of Health</i> | | | | |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | 69-5-02-F-AN-392 | 9,611 | 7,641 |
| | | 69-5-03-F-AN-392 | 29,936 | 28,583 |
| Total Grants for Infants and Families with Disabilities | | | <u>39,547</u> | <u>36,224</u> |
| Total Department of Education | | | <u>665,910</u> | <u>714,601</u> |
| CORPORATION FOR NATIONAL AND COMMUNITY SERVICES | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Learn and Serve America Grant - School and Community Based Programs | 94.004 | SVS2-02 | | 109 |
| | 94.004 | SVS2-03 | 15,000 | 12,483 |
| Total Learn and Serve America Grant - School and Community Based Programs | | | <u>15,000</u> | <u>12,592</u> |
| UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i> | | | | |
| Medical Assistance Program (CAFS) | 93.778 | 6900134 | 96,256 | 96,256 |
| <i>Passed Through Putnam County Jobs and Family Services</i> | | | | |
| Workforce Investment Act Youth Activities | 17.259 | | 24,282 | 34,082 |
| <i>Passed Through Putnam County Family Children First Council</i> | | | | |
| Promoting Safe and Stable Families | 93.556 | | | 7,400 |
| | 93.556 | | 11,241 | 10,983 |
| Total Promoting Safe and Stable Families | | | <u>11,241</u> | <u>18,383</u> |
| Total Department of Health and Human Services | | | <u>131,779</u> | <u>148,721</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | <u>\$1,032,363</u> | <u>\$1,110,421</u> |

See accompanying notes to the Schedule of Federal Awards

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

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

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

To the Governing Board:

We have audited the financial statements of the Putnam County Educational Service Center (the Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated February 9, 2004.

Internal Control over Financial Reporting

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

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

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

Betty Montgomery
Auditor of State

February 9, 2004



**Auditor of State
Betty Montgomery**

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

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

To the Governing Board:

Compliance

We have audited the compliance of Putnam County Educational Service Center (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

The management of the Center 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 Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



Betty Montgomery
Auditor of State

February 9, 2004

PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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PUTNAM EDUCATIONAL SERVICE CENTER

PUTNAM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 4, 2004**