



**Mary Taylor, CPA**  
Auditor of State



MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Mercer County Educational Service Center  
Mercer County  
441 East Market Street  
Celina, Ohio 45822

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center'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.

Ohio Administrative Code § 117-2-03 (B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, as of June 30, 2008, and the respective changes in cash financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2009, on our consideration of the Service Center'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 and the schedule of budgetary comparison for the General Fund are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board 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 Service Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures 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 Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

February 24, 200908

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
UNAUDITED**

The discussion and analysis of the Mercer County Educational Service Center's (Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

**Financial Highlights**

Key financial highlights for 2008 are as follows:

- In 2008, General Receipts accounted for \$1,240,637 or 18% of all receipts. Program specific receipts in the form of charges for services and sales, grants, contributions and interest accounted for \$5,812,356 or 82% of total receipts of \$7,052,993.
- In 2008, total program disbursements were \$6,762,157.
- In 2008, net assets increased in total by \$290,836.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Service Center as a whole 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 Service Center. 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 Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Service Center, the general fund and Part B – IDEA Fund are the most significant funds.

**Basis of Accounting**

The Service Center has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**Reporting the Service Center as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2008?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the Service Center's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the Service Center as a whole, the *financial position* of the Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, operation and maintenance of plant.

**Reporting the Service Center's Most Significant Funds**

**Fund Financial Statements**

The analysis of the Service Center's major funds begins on page 5. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and Part B - IDEA fund.

**Governmental Funds** - All of the Service Center'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 a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Service Center'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.

**Reporting the Service Center's Fiduciary Responsibilities**

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 11. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**The Service Center as a Whole**

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. Table 1 provides a comparative summary of the Service Center's net assets for 2008 and 2007:

**(Table 1)  
Net Assets – Cash Basis**

	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,096,545	\$805,709
Total Assets	<u>1,096,545</u>	<u>805,709</u>
<b>Net Assets</b>		
<b>Restricted for:</b>		
Other Purposes	24,954	29,756
Unclaimed Monies	31,084	
Unrestricted	<u>1,040,507</u>	<u>775,953</u>
Total Net Assets	<u>\$1,096,545</u>	<u>\$805,709</u>

At June 30, 2008 and 2007, net assets restricted for other purposes represented 2.3% and 3.7%, respectively, of total governmental net assets. During fiscal year 2008, governmental net assets increased \$290,836, or 36.1% over fiscal year 2007. This is due to increases in receipts for charges for services and sales while maintaining a constant level of disbursements.

Table 2 shows the changes in net assets for fiscal years 2008 and 2007. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

**(Table 2)  
Change in Net Assets**

	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
<b>Receipts:</b>		
<b>Program Receipts:</b>		
Charges for Services and Sales	\$4,615,512	\$3,982,596
Operating Grants and Contributions	1,196,844	1,299,188
<b>General Receipts:</b>		
Grants and Entitlements	1,152,185	1,124,809
Interest	29,414	31,120
Miscellaneous	59,038	49,041
Total Receipts	<u>7,052,993</u>	<u>6,486,754</u>
<b>Program Disbursements:</b>		
Instruction	3,256,808	2,895,228
Support Services	2,535,021	2,384,806
Debt Service	3,079	1,526
Intergovernmental Disbursements	967,249	971,146
Total Disbursements	<u>6,762,157</u>	<u>6,252,706</u>
Increase in Net Assets	<u>\$ 290,836</u>	<u>\$ 234,048</u>

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**Governmental Activities**

Several receipt sources fund the Service Center's governmental activities with school foundation program being the largest contributor. School foundation provided \$5.1 million in fiscal year 2008 and \$4.8 million during 2007. Charges for Services and Sales increased largely due to this increase from foundation settlement payments. For fiscal year 2008, the portion of the foundation settlement payments that represent charges for services increased \$391,938 from fiscal year 2007. School foundation receipts include contract receipts from local school districts. Additional charges for services are received directly from local school districts for services performed. General receipts from grants and entitlements are also a large receipts generator. With the combination of charges for services and unrestricted grants funding at over 82% of total receipts in governmental activities, the Service Center monitors both of these receipt sources very closely for fluctuations.

Receipts, as well as disbursements, each increased 8% during fiscal year 2008. With a constant level of disbursements, the Service Center is able to continue to increase its total net assets from year to year.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 unrestricted State grants and entitlements.

**(Table 3)  
Governmental Activities**

	2008		2007	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$3,256,808	\$303,585	\$2,895,228	\$296,167
<b>Support Services:</b>				
Pupil and Instructional Staff	1,944,395	338,018	1,772,694	290,935
Board of Governors, Administration				
Fiscal and Business	524,279	238,772	564,654	340,448
Operation and Maintenance of Plant	35,802	35,802	32,995	27,956
Pupil Transportation			1,136	1,136
Central	30,545	30,545	13,327	13,327
Debt Service	3,079	3,079	1,526	1,526
Intergovernmental Disbursements	967,249		971,146	(573)
<b>Total</b>	<b>\$6,762,157</b>	<b>\$949,801</b>	<b>\$6,252,706</b>	<b>\$970,922</b>

In 2008, instruction and student support services comprise 77% of governmental program disbursements. Fiscal, administration, board of governors and business charges were 8%. Intergovernmental and all other disbursements account for 15%.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**The Service Center's Funds**

The Service Center has two major governmental funds: the general fund and the Part B - IDEA fund. The assets of these funds comprise \$1,071,591, or 98% of the \$1,096,545 in total governmental funds' assets.

**General Fund** - Fund balance at June 30, 2008 was \$1,071,591, including \$1,024,195, or 96%, of unreserved balance. The unreserved fund balance percentage remained constant as compared to prior year. General fund disbursements for fiscal year 2008 were \$5,555,484, or 82% of total governmental disbursements of \$6,762,157.

**Part B - IDEA Fund** - Fund balance remained constant during fiscal year 2008 as a result of the funding from the government being used to offset disbursements from the fund.

**General Fund Budgeting Highlights**

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as the Service Center does not have local tax levies financing its operations. However, the Governing Board annually adopts an expenditure budget, which sets the spending authority, or appropriations, for the General Fund for the ensuing fiscal year, and is set at the fund, function, object level. Revenues are not budgeted by the Governing Board.

During the course of fiscal year 2008, the Service Center did not significantly modify its general fund appropriations. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual disbursements on the budget basis (cash outlays plus encumbrances) for fiscal year 2008 were nearly \$5.6 million, approximately \$355,000 less than what was budgeted during the year. Management's efforts to contain operating costs explain why the full appropriation amount was not utilized.

**Debt Administration**

At June 30, 2008, the Service Center had a vehicle lease outstanding. See Note 10 for additional details.

**Current Issues**

The Service Center has not anticipated any meaningful growth in State receipts. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the Service Center. Another concern is the State Legislative approval of the biennial budget, effective July 1, 2003, which had a negative impact on the Service Center. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the Service Center's systems of budgeting appropriations and internal controls are well regarded. All of the Service Center's financial abilities will be needed to meet the challenges of the future.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)  
(Continued)**

**Contacting the Service Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary E. Brandon, Treasurer of Mercer County Educational Service Center, 441 E. Market St, Celina, OH 45822 or [mc\\_treas@noacsc.org](mailto:mc_treas@noacsc.org).

MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2008

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,096,545
Total Assets	<u>1,096,545</u>
<b>Net Assets</b>	
<b>Restricted for:</b>	
Other Purposes	24,954
Unclaimed Monies	31,084
Unrestricted	<u>1,040,507</u>
Total Net Assets	<u>\$1,096,545</u>

*See accompanying notes to the financial statements.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE June 30, 2008**

		Program Receipts		Net (Disbursement) Receipt and Changes in Net Assets
	Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	\$311,156		\$165,896	(\$145,260)
Special	2,945,652	\$2,787,327		(158,325)
<b>Support services:</b>				
Pupils	1,618,858	1,313,784	28,971	(276,103)
Instructional staff	325,537	263,622		(61,915)
Board of Governors	83,662			(83,662)
Administration	335,805	250,779	34,728	(50,298)
Fiscal	95,688			(95,688)
Business	9,124			(9,124)
Operation and maintenance of plant	35,802			(35,802)
Pupil transportation				
Central	30,545			(30,545)
<b>Debt service:</b>				
Principal	2,841			(2,841)
Interest	238			(238)
Intergovernmental	967,249		967,249	
Total Governmental Activities	\$6,762,157	\$4,615,512	\$1,196,844	(949,801)
 <b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				1,152,185
Interest				29,414
Miscellaneous				59,038
Total General Receipts				1,240,637
Change in Net Assets				290,836
Net Assets Beginning of Year				805,709
Net Assets End of Year				\$1,096,545

See accompanying notes to the financial statements.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<b>Fund</b>	<b>IDEA</b>	<b>Governmental</b>	<b>Governmental</b>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,040,507	\$0	\$24,954	\$1,065,461
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	31,084			31,084
Total Assets	1,071,591		24,954	1,096,545
 <b>Fund Balances</b>				
<b>Reserved for:</b>				
Encumbrances	16,312		900	17,212
Unclaimed Monies	31,084			31,084
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	1,024,195			1,024,195
Special Revenue Funds			24,054	24,054
Total Fund Balances	\$1,071,591	\$0	\$24,954	\$1,096,545

*See accompanying notes to the financial statements.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Fund</u>	<u>IDEA</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>				
Intergovernmental	\$1,152,185	\$897,322	\$299,523	\$2,349,030
Contract Services	4,272,405			4,272,405
Interest	29,414			29,414
Tuition and Fees	206,934			206,934
Rent	522			522
Extracurricular Activities	131,252		4,400	135,652
Miscellaneous	58,210			58,210
Total Receipts	<u>5,850,922</u>	<u>897,322</u>	<u>303,923</u>	<u>7,052,167</u>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	156,167		154,989	311,156
Special	2,945,652			2,945,652
<b>Support Services:</b>				
Pupils	1,581,034		37,824	1,618,858
Instructional Staff	312,454		13,083	325,537
Board of Governors	83,662			83,662
Administration	302,277		33,528	335,805
Fiscal	95,688			95,688
Business	9,124			9,124
Operation and Maintenance of Plant	35,802			35,802
Pupil Transportation				
Central	30,545			30,545
<b>Debt Service:</b>				
Principal	2,841			2,841
Interest	238			238
Intergovernmental		897,322	69,927	967,249
Total Disbursements	<u>5,555,484</u>	<u>897,322</u>	<u>309,351</u>	<u>6,762,157</u>
Excess of Receipts Over (Under) Disbursements	<u>295,438</u>		<u>(5,428)</u>	<u>290,010</u>
<b>Other Financing Sources</b>				
Refund of Prior Year Disbursements	200		626	826
Total Other Financing Sources	<u>200</u>		<u>626</u>	<u>826</u>
Net Change in Fund Balances	295,638		(4,802)	290,836
Fund Balance at Beginning of Year	<u>775,953</u>		<u>29,756</u>	<u>805,709</u>
Fund Balance at End of Year	<u>\$1,071,591</u>	<u>\$0</u>	<u>\$24,954</u>	<u>\$1,096,545</u>

See accompanying notes to the financial statements.



MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS

JUNE 30, 2008

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$34,127</u>
Total Assets	<u><u>34,127</u></u>
<b>Net Assets</b>	
<b>Held for:</b>	
Other Governments	23,912
Employees	<u>10,215</u>
Total Net Assets	<u><u>\$34,127</u></u>

*See accompanying notes to the financial statements.*

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Mercer County Educational Service Center (the "Service Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected Board of Governors (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

Management believes the financial statements included in this report represent all of the funds of the Service Center over which the Service Center has the ability to exercise direct operating control.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center.

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organizations if the Service Center appoints a voting majority of the organization's governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. The Service Center is also financially accountable for any organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Service Center, are accessible to the Service Center and are significant in amount to the Service Center. There are no component units of the Service Center.

The Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Mercer County Local Professional Development Committee, State Support Team Region 6, the Northwestern Ohio Educational Research Council, Schools of Ohio Risk Sharing Authority, OASBO Workers' Compensation Group Rating Plan, and Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 11 and 12 to the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Service Center's accounting policies.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Accounting**

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. The Service Center can be fined and various other administrative remedies may be taken against them.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**B. Basis of Presentation - Fund Accounting**

**1. Government-Wide Financial Statements**

The Statement of Net Assets-Cash Basis and Statement of Activities-Cash Basis display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Fund Financial Statements**

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds.

The funds of the financial reporting entity are described below:

**3. Governmental Funds/Governmental Activities**

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2008:

**General Fund** - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Part B – IDEA Fund** - The Part B - IDEA Fund is a special revenue fund that provides special education and resources to children.

**4. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The Service Center's agency funds include Employee Section 125 Insurance, Family and Children's First program and Help Me Grow program funding. The Service Center acts as both fiscal and administrative agent for both programs.

**C. Budgetary Process**

The Service Center's Board annually adopts an appropriation resolution for the General Fund only. The appropriations may be amended or supplemented throughout the year as circumstances warrant.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Advances in and Advance out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**1. Appropriations:**

The annual appropriation resolution is enacted by the Governing Board of the Service Center, for the General Fund only, at the fund, function and object level of disbursements. Prior to the passage of the annual appropriation measure, the Service Center may pass a temporary appropriation measure to meet the ordinary disbursements of the Service Center. The total of disbursements and encumbrances may not exceed the appropriation totals at the levels of control established by the Governing Board. Any revisions that alter the total of the fund appropriation, or alter total function appropriations within a fund, must be approved by the Governing Board of the Service Center.

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 the General Fund.

**2. Encumbrances:**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the budgetary basis in order to reserve that portion of the applicable appropriation.

**3. Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the Service Center is pooled in a central bank account. Monies for all funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Money market mutual funds are recorded by the funds at cost. Investment earnings are allocated as authorized by State statute based upon Service Center policy.

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which were not purchased with pooled monies are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Following Ohio statutes, the Board of Governors has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2008 were \$29,414.

**E. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that have a legal restriction on their use are reported as restricted.

**F. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

**G. Accumulated Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Service Center.

**H. Long-term Debt**

Long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

**I. Intergovernmental Receipts**

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants are recorded as receipts when the grant is received.

**J. Inventory and Prepaid Items**

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**K. Pass-Through Grants**

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2008, these funds included the Special Education Grants to States (Part B-IDEA) and Special Education Preschool Grant.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Interfund Transactions**

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

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

The Service Center reports advance-in and advance-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. During fiscal year 2008, there were no advances or transfers between separate funds.

**M. Employer Contributions to Cost-Sharing Pension Plans**

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**N. Equity Classifications**

**1. Government-Wide Statements**

Equity is classified as net assets and displayed in separate components:

- a. **Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for summer programs and federal and state grants restricted to expenditure for specified purposes. The Service Center did not have any assets restricted by enabling legislation.
- b. **Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

**2. Fund Financial Statements**

Governmental fund equity is classified as fund balance. The Service Center records reservations for portions of fund equity which are legally segregated for 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. Fund equity reserves are established for encumbrances and unclaimed monies.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. Receipts and Disbursements**

**1. Program Receipts**

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. The Service Center has the following program receipts: charges for services and sales and operating grants and contributions. All other governmental receipts are reported as general.

**2. Disbursements**

Governmental activities include the Service Center's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation and debt service.

**3. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code, Section 117-2-03(B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

**4. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Service Center 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 Service Center 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to passbook accounts.

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

Protection of the Service Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 BASIC FINANCIAL STATEMENTS  
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(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security 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. 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; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests 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 Service Center and must be purchased with the expectation that it will be held to maturity. 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  
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(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all uninsured public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At June 30, 2008, the carrying amount of the Service Center's deposits was \$1,130,547 and the bank balance was \$1,246,134. Of the bank balance, \$296,749 was covered by federal depository insurance and \$949,385 was uninsured and collateralized with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

At fiscal year end, the Service Center had \$125 in undeposited cash on hand which is included in the end of year fund cash balances.

**5. PRIMARY RECEIPT SOURCES**

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

**A. State Foundation Distributions - Amounts Paid by the State.**

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997. The third part represents supervisory extended service amounts associated with co-op units which would be recovered by the State from the districts that are parties to the cooperative agreement and reported as charges for services; however, the Service Center did not receive this type of funding during the fiscal year.

These are State monies appropriately recorded as unrestricted grants-in-aid and reported as intergovernmental revenue.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**5. PRIMARY RECEIPT SOURCES (Continued)**

**B. State Foundation Distributions**

**1. Amounts Paid by the Local School Districts**

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts.

These amounts are all reported as contract services.

**2. Amounts Paid under Contract by Local School Districts**

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts.

These amounts also represent contract services.

**6. RISK MANAGEMENT**

**A. Property and Liability**

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2008, the Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant. For fiscal year 2008, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property	
Building and Business (No deductible)	\$1,605,363
Earth Movement Limit (\$50,000 deductible)	2,000,000
Flood Limit (\$50,000 deductible)	2,000,000
Equipment Breakdown (No deductible)	25,000,000
CFC Refrigerants (No deductible)	25,000
Hazardous Substance Contamination (No deductible)	50,000
Spoilage (No deductible)	10,000
Expediting Expenses (No deductible)	50,000
Crime Coverage	
Employee Dishonesty (No deductible)	50,000
Forgery or Alteration (No deductible)	50,000
Computer Fraud (No deductible)	50,000
Theft, Disappearance and Destruction (No deductible)	50,000
General Liability	
Bodily Injury and Property Damage (No deductible)	5,000,000

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**6. RISK MANAGEMENT (Continued)**

Personal Injury/Advertising Liability (No deductible)	5,000,000
Products/Completed Operations (No deductible)	5,000,000
Employee Benefits Liability (No deductible)	5,000,000
Employers Stop Gap Liability	
Bodily Injury by Accident (Per Accident) (No deductible)	1,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	1,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	1,000,000
Aggregate Limit (No deductible)	1,000,000
General Annual Aggregate	7,000,000
Fire Legal Liability	500,000
Medical Payments (Occurrence/Aggregate) (No deductible)	5,000/25,000
Educators Legal Liability	
Wrongful Acts Coverage Per Occurrence (No deductible)	5,000,000
Wrongful Acts Coverage Aggregate	5,000,000
Automobile Liability and Physical Damage	
Bodily Injury & Property Damage (Per Occurrence) (No deductible)	5,000,000
Medical Payments (Occurrence/Aggregate) (No deductible)	5,000/25,000
Uninsured/Underinsured Motorist (No deductible)	1,000,000
Automobile Physical Damage (No deductible)	ACV
Garagekeepers Physical Damage ACV	(Maximum 100,000)

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no reduction in insurance coverage from the prior fiscal year.

**B. Workers' Compensation**

The Service Center participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan ("Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the Plan.

**C. Medical Benefits**

The Service Center participates in the Mercer Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Service Center pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. PENSION PLANS**

**A. School Employee Retirement System**

**Plan Description** - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current Center's rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$108,135, \$106,130 and \$100,136 respectively; equal to the amounts paid for each year.

**B. State Teachers Retirement System**

**Plan Description** - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**7. PENSION PLANS (Continued)**

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$363,416, \$333,163, and \$308,016 respectively; 89 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$592 made by the School District and \$14,044 made by the plan members.

**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 of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**8. POST-EMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

**Plan Description** – The Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$16,309.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. POST-EMPLOYMENT BENEFITS (Continued)**

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$49,345, \$35,235, and \$34,945 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$7,791, \$7,217, and \$7,970 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

**B. State Teachers Retirement System**

**Plan Description** – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$28,001, \$25,629, and \$23,694 respectively; 89 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**9. OTHER EMPLOYEE BENEFITS**

The Service Center offers medical and dental insurance to all employees through the Mercer Auglaize Employee Benefit Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The Service Center provides life insurance to employees through CoreSource.



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**10. DEBT OBLIGATIONS**

The changes in the Service Center's debt obligations during fiscal year 2008 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/08</u>	<u>Due Within One Year</u>
Loan - Vehicle	3.65%	\$7,812	\$0	\$2,841	\$4,971	\$2,946

**Loan Payable - Vehicle** - On February 22, 2007, the Service Center entered into a loan agreement for a 2007 Ford Fusion. The overall principal of the loan was in the amount of \$9,236, at an interest rate of 3.65 percent. The loan was issued for a three year period, with monthly payments of \$257, including principal and interest, and a final maturity during fiscal year 2010.

Principal payments for fiscal years 2009 and 2010 are \$2,946 and \$2,025, respectively. Interest payments for fiscal years 2009 and 2010 are \$132 and \$28, respectively.

**11. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative**

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative ("NOACSC"), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Allen, 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 educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**B. Mercer County Local Professional Development Committee**

The Service Center is a participant in the Mercer County Local Professional Development Committee ("Committee") which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an eleven member board made up of six teachers, two building principals, one superintendent, and two members from the Service Center. Board members serve two year terms. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

**C. State Support Team Region 6**

The State Support Team Region 6 ("SST6") is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SST6 is governed by a board of 52 members made up of the 50 superintendents of the participating School Districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Marlene Graf, Director, at 1045 Dearbaugh, Suite #1, Wapakoneta, Ohio 45895.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. ("NOERC") is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio.

The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained by contacting Andrew Smith, Northwestern Ohio Educational Research Council, Inc., 441E. Market Street, Celina, Ohio 45822.

**12. INSURANCE PURCHASING POOLS**

**A. Schools of Ohio Risk Sharing Authority**

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**B. OASBO Workers' Compensation Group Rating Plan**

The Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member board of directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**C. Mercer Auglaize Employee Benefit Trust**

The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(Continued)**

**12. INSURANCE PURCHASING POOLS (Continued)**

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler, JM Consulting, 3547 Beechway Blvd., Toledo, Ohio 43614.

**13. INTERFUND ACTIVITY**

During fiscal year 2008, the Service Center had no advances or transfers between separate funds.

**14. CONTINGENCIES**

**Grants**

The Service Center received financial assistance from federal and state 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2008.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/ Pass-Through Agency Program Titles</b>	<b>Federal CFDA Number</b>	<b>Project Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>U.S. Department of Education</b>				
(Passed through the Ohio Department of Education)				
Special Education Cluster:				
Special Education_Grants to States	84.027	2008	\$897,322	\$897,322
Special Education_Preschool Grants	84.173	2008	<u>69,927</u>	<u>69,927</u>
Total Special Education Cluster			967,249	967,249
Twenty First Century Community Learning Centers	84.287	2008	64,214	64,214
		2007	<u>24,270</u>	<u>26,492</u>
Total Twenty First Century Community Learning Centers			<u>88,484</u>	<u>90,706</u>
Total Federal Financial Assistance			<u>\$1,055,733</u>	<u>\$1,057,955</u>

*See accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – ADMINISTRATIVE AGENT**

The Mercer County Educational Service Center is the Administrative Agent for the Mercer County Family and Children First Council. In that capacity, the Service Center was awarded the Help Me Grow Program, CFDA #84.181 through the Ohio Department of Health. The receipt and expenditure of this grant is not reported as part of the Schedule of Federal Awards for the Service Center. The federal grant is considered to be part of the Mercer County Family and Children First Council, which issues a separate financial report.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<b>Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Positive (Negative) Budget</b>
<b>Receipts</b>				
Intergovernmental			\$1,152,185	
Contract Services			4,272,405	
Interest			29,414	
Tuition and Fees			206,934	
Rent			522	
Extracurricular Activities			131,252	
Miscellaneous			58,210	
Total Receipts			5,850,922	
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	\$189,185	\$267,085	171,679	\$95,406
Special	3,059,808	3,059,808	2,945,652	114,156
<b>Support Services:</b>				
Pupils	1,580,129	1,580,129	1,581,834	(1,705)
Instructional Staff	340,752	340,752	312,454	28,298
Board of Governors	96,978	96,978	83,662	13,316
Administration	344,235	344,235	302,277	41,958
Fiscal	105,505	105,505	95,688	9,817
Business	21,000	21,000	9,124	11,876
Operation and Maintenance of Plant	37,100	37,100	35,802	1,298
Pupil Transportation	60,000	60,000		60,000
Central	14,300	14,300	30,545	(16,245)
<b>Extracurricular Activities:</b>				
School and Public Service Co-Curricular Activity				
Debt Service				
Principal			2,841	(2,841)
Interest			238	(238)
Total Disbursements	\$5,848,992	\$5,926,892	5,571,796	\$355,096
Excess of Receipts Over Disbursements			279,126	
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Disbursements			200	
Total Other Financing Sources (Uses)			200	
Net Change in Fund Balances			279,326	
Fund Balance at Beginning of Year			773,921	
Prior Year Encumbrances Appropriated			2,032	
Fund Balance at End of Year			\$1,055,279	

*See accompanying notes to the required supplementary information.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE SCHEDULES OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BASIS FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**A. BASIS OF BUDGETING**

Basis of budgeting refers to when revenues and expenditures are recognized in the accounts. The Service Center recognizes transactions when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Unencumbered fund balance is available for appropriation in the following fiscal year and therefore fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

**B. GENERAL BUDGET POLICIES**

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as it does not have local tax levies. However, the Governing Board annually adopts an expenditure budget which sets the spending authority, or appropriations, the General Fund for the ensuing year. The Governing Board does not budget revenues.

The primary level of budget control established by the Governing Board is at the General fund/function/object level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of the General Fund must be approved by resolution of the Governing Board. During fiscal year 2008 there was one modification to the appropriation budget approved by the Governing Board. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts.

As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budget basis and reserves that portion of the applicable appropriation. Encumbrances outstanding at fiscal yearend are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbrance appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

The budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedules of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balance - Budget and Actual – Budget Basis for the General Fund is presented as supplementary information on the budgetary basis to provide a meaningful comparison of actual results with the budget.





# 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

Mercer County Educational Service Center  
Mercer County  
441 East Market Street  
Celina, Ohio 45822

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2008, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 24, 2008, wherein, we noted the Service Center uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 Service Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-002 and 2008-003 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Service Center's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control Over Financial Reporting  
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe finding number 2008-003 is a material weakness.

We also noted certain internal control matters that we reported to the Service Center's management in a separate letter dated February 24, 2009.

**Compliance and Other Matters**

As part of reasonably assuring whether the Service Center'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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

The Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Service Center's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Governing Board, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 24, 2009



# Mary Taylor, CPA

## Auditor of State

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

Mercer County Educational Service Center  
Mercer County  
441 East Market Street  
Celina, Ohio 45822

To the Governing Board:

#### Compliance

We have audited the compliance of the Educational Service Center, Mercer County, (the Service Center), 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, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal programs. The Service Center'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 Service 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 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 Service Center'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 Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2008.

#### Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

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**Internal Control Over Compliance  
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Service Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Mary Taylor, CPA**  
Auditor of State

February 24, 2009

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2008**

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

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

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

**FINDING NUMBER 2008-001**

**NONCOMPLIANCE CITATION**

**Ohio Rev. Code Section 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**Ohio Adm. Code Section 117-2-03 (B)** requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

In order to present financial statements that include assets, liabilities and the disclosures required to accurately present the Service Center's financial condition, the Service Center should develop and implement procedures to prepare the annual financial statements in accordance with generally accepted accounting principles.

**Official's Response:**

The Governing Board of the Educational Service Center (ESC) discussed GAAP reporting at numerous Board meetings and unanimously decided against reporting GAAP. The ESC instead does OCBOA (GAAP look-a-like) reporting which is more cost effective. Since school funding continues to be cut and the Ohio Legislation is not following the ruling of the Ohio Supreme Court regarding the school funding decision, the Board felt the need to eliminate costs where it can without being a detriment to the children and taxpayers we serve.

**FINDING NUMBER 2008-002**

**SIGNIFICANT DEFICIENCY**

**Payroll Account Coding per Uniform Standard Accounting System (USAS)**

The Service Center utilized the Uniform School Accounting System (USAS) which established an account coding to be used to account for financial activity according to revenues, expenditures, and funds. The Service Center established and accounted for the following inappropriately according to USAS:

- **Payroll Expenditures:** Multiple expenditure transactions were posted to inappropriate USAS function account codes on the Service Center's accounting system for payroll related expenditures.

Four teachers were posted to Other Support Services – Pupils and should have been posted to Instruction – Special. It was also noted the preschool supervisor was posted to Instruction – Special instead of Support Services – Administration, due to the supervisor was not teaching preschool students.

**FINDING NUMBER 2008-002  
(Continued)**

The Service Center's Governing Board, Treasurer and Administration should review the USAS manual and make the necessary revisions to the Service Center's computer system to appropriately account for the Service Center's financial activity on the financial statements. The accompanying financial statements have not been adjusted for these errors.

**Official's Response:**

Changes will be made that work for the Educational Service Center. The Center tried to keep groups of personnel together for better reporting to the staff. For example, the preschool supervisor should be under function 2200 for supervision, but the ESC had kept her in function 1229 which is the preschool account.

**FINDING NUMBER 2008-003**

**MATERIAL WEAKNESS**

**Delinquent Shared Services Collection Monitoring**

As of June 30, 2008, Coldwater Exempted Village School District still has a balance due of \$65,100 from the 2005-2006 Final Cost for Shared Services, Parkway Local School District still has a balance due of \$35,404 from the 2005-2006 Final Billing, and \$21,287 from the 2006-2007 Final Billing for Shared Services. The Treasurer was made aware of the outstanding amounts from the 2005-2006 Final Cost sheets by the prior audit staff during January 2008; and has included these outstanding amounts owed to the ESC from Coldwater EVSD and Parkway LSD within the 2008-2009 contracted SF3 deduction in order to collect these amounts. The Treasurer attempted to collect the 2006-2007 outstanding amount from Parkway LSD through the fiscal year 2008 SF3 deduction, but only succeeded in collecting ¼ of the total amount owed, leaving a balance at \$21,287 as noted above. The Treasurer has also included this amount due within the 2008-2009 contracted SF3 deduction in order to bring collection current.

The lack of monitoring the final collection of the shared services revenue could result in the Service Center's failure to detect the uncollected revenue and allow the financial statements to be understated.

The Service Center should establish procedures to monitor that the amounts due from each participating school district per the written agreements to agree to the amounts received for proper financial statement presentation. This could be achieved by preparing a spreadsheet and documenting the amounts (original and amendments) agreed upon by the participating school districts, and then reconciling the amounts collected through the foundation settlements.

**Official's Response:**

The School Districts requested their unpaid balances be deducted from their SF-3. The necessary forms were submitted to ODE, but changes were not made. Coldwater Exempted Village and Parkway Local Schools are in the process of paying the additional amounts. The ESC will be checking the amounts owed to the ESC by each school monthly so that this does not happen again in the future.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-001	ORC 117.38 and OAC 117-2-03 (B) – The Service Center filed cash basis financial statements rather than the required gaap statements.	No	Repeated - See Finding Number 2008-001





**Mary Taylor, CPA**  
Auditor of State

**MERCER EDUCATIONAL SERVICE CENTER**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 7, 2009**