



Mary Taylor, CPA  
Auditor of State



MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis – June 30, 2010.....	9
Statement of Activities – Cash Basis - For the Fiscal Year Ended June 30, 2010.....	10
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds – June 30, 2010.....	11
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances Governmental Funds – For the Fiscal Year Ended June 30, 2010.....	12
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds - June 30, 2010.....	13
Notes to the Basic Financial Statements.....	15
Supplementary Information:	
Schedule of Cash Receipts, Disbursements and Change in Fund Balance Budget and Actual – Budget Basis - General Fund For the Fiscal Year Ended June 30, 2010.....	33
Notes to the Schedule of Receipts, Disbursements and Change in Fund Balance Budget and Actual – General Fund - For the Fiscal Year Ended June 30, 2010.....	34
Schedule of Federal Awards Receipts and Expenditures.....	37
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	38
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	39
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by OMB Circular A-133.....	41
Schedule of Findings.....	43
Schedule of Prior Audit Findings.....	45

**This page intentionally left blank.**



# 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 Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County Educational Service Center, Mercer County, (the Center), as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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 Mercer County Educational Service Center, Mercer County, Ohio, as of June 30, 2010, and the respective changes in cash financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, the Center restated the beginning fund balances of the General and Other Governmental Funds due to the Termination Benefits Special Revenue Fund was rolled into the General Fund, rather than being presented in the Other Governmental Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and the budgetary comparison schedule for the General Fund, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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 for Fiscal Year Ended June 30, 2010 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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

November 19, 2010

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(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, 2010. 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 2010 are as follows:

- In 2010, General Receipts accounted for \$1,419,210 or 24% of all receipts. Program specific receipts in the form of charges for services and sales, grants, contributions and interest accounted for \$4,415,416 or 76% of total receipts of \$5,834,626.
- In 2010, total program disbursements were \$5,486,668.
- In 2010, net assets increased in total by \$347,958.

**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 nonmajor 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, 2010  
(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 2010?" 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 6. 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 13. 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, 2010  
(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 2010 and 2009:

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

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,565,168	\$1,217,210
Total Assets	<u>1,565,168</u>	<u>1,217,210</u>
<b>Net Assets:</b>		
<b>Restricted for:</b>		
Other Purposes	52,279	53,126
Unrestricted	1,512,889	1,164,084
Total Net Assets	<u>\$1,565,168</u>	<u>\$1,217,210</u>

At June 30, 2010 and 2009, net assets restricted for other purposes represented 3.3% and 4.4%, respectively, of total governmental net assets. During fiscal year 2010, governmental net assets increased \$347,958, or 28.6% over fiscal year 2009. This is due to increased efforts to reduce the disbursements of the Service Center.

Table 2 shows the changes in net assets for fiscal years 2010 and 2009. 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>2010</b>	<b>2009</b>
<b>Program Receipts:</b>		
Charges for Services and Sales	\$3,285,270	\$4,003,912
Operating Grants and Contributions	1,130,146	1,015,222
<b>General Receipts:</b>		
Grants and Entitlements	1,391,507	1,355,170
Interest	3,519	9,505
Miscellaneous	24,184	18,000
Total Receipts	<u>5,834,626</u>	<u>6,401,809</u>
<b>Program Disbursements:</b>		
Instruction	3,329,260	3,368,586
<b>Support Services:</b>		
Pupil and Instructional Staff	1,517,929	2,168,551
Bd. Of Governors, Admin. Fiscal and Business	506,958	517,498
Operation and Maintenance of Plant	53,636	34,775
Pupil Transportation	56,065	143,753
Central	20,767	44,902
Debt Service	2,053	3,079
Total Disbursements	<u>5,486,668</u>	<u>6,281,144</u>
Increase in Net Assets	<u>\$ 347,958</u>	<u>\$ 120,665</u>

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(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 \$4.4 million in fiscal year 2010 and \$5.0 million during 2009. Almost all receipts and all disbursements decreased proportionately in fiscal year 2010. With the combination of charges for services and operating grants funding at over 80% of total receipts in governmental activities, the Service Center monitors both of these receipt sources very closely for fluctuations.

Receipts decreased 8.9% and disbursements decreased 12.6% during fiscal year 2010. With a constant level of receipts and 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**

	<b>2010</b>		<b>2009</b>	
	<b>Total Cost of Service</b>	<b>Net Cost of Service</b>	<b>Total Cost of Service</b>	<b>Net Cost of Service</b>
Instruction	\$3,329,260	\$ 331,016	\$3,368,586	\$ 339,186
<b>Support Services:</b>				
Pupil and Instructional Staff	1,517,929	367,051	2,168,551	430,474
Board of Governors, Administration				
Fiscal and Business	506,958	240,664	517,498	265,841
Operation and Maintenance of Plant	53,636	53,636	34,775	34,775
Pupil Transportation	56,065	56,065	143,753	143,753
Central	20,767	20,767	44,902	44,902
Debt Service	2,053	2,053	3,079	3,079
<b>Total</b>	<b>\$5,486,668</b>	<b>\$1,071,252</b>	<b>\$6,281,144</b>	<b>\$1,262,010</b>

In fiscal year 2010, instruction and student support services comprise 88.3% of governmental program disbursements. Fiscal, administration, board of governors and business charges were 9.2%. All other disbursements account for 2.5%.

**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 \$1,524,029, or 97.4% of the \$1,565,168 in total governmental funds' assets.

**General Fund** – Fund balance at June 30, 2010 was \$1,524,028, including \$1,480,386, or 97.1%, of unreserved balance. The unreserved fund balance percentage remained constant as compared to the prior year. General fund disbursements for fiscal year 2010 were \$4,437,216, or 80.9% of total governmental disbursements of \$5,486,668.

**Part B – IDEA Fund** – Fund balance remained constant during fiscal year 2010 as a result of the funding from the government being used to offset disbursements from the fund.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**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 2010, 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 2010 were \$4.4 million, approximately \$1.2 million 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**

During fiscal year 2010, the Service Center had a vehicle loan mature. See Note 11 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.

**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).

**This page intentionally left blank.**

MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2010

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,565,168
Total Assets	<u>1,565,168</u>
<b>Net Assets:</b>	
<b>Restricted for:</b>	
Other Purposes	52,279
Unrestricted	1,512,889
Total Net Assets	<u>\$1,565,168</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 30, 2010**

	<b>Program Receipts</b>		<b>Net (Disbursement) Receipt and Changes in Net Assets</b>
	<b>Disbursements</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>
			<b>Governmental Activities</b>
<b>Governmental Activities:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	\$164,598		\$205,346
Special	3,164,662	\$2,037,384	755,514
<b>Support services:</b>			
Pupils	1,191,360	777,537	134,620
Instructional staff	326,569	236,421	2,300
Board of Governors	52,237		(52,237)
Administration	345,302	233,928	32,366
Fiscal	103,362		(103,362)
Business	6,057		(6,057)
Operation and maintenance of plant	53,636		(53,636)
Pupil transportation	56,065		(56,065)
Central	20,767		(20,767)
<b>Debt service:</b>			
Principal	2,025		(2,025)
Interest	28		(28)
<b>Total Governmental Activities</b>	<b>\$5,486,668</b>	<b>\$3,285,270</b>	<b>\$1,130,146</b>
			<b>(1,071,252)</b>
<b>General Receipts:</b>			
Grants and Entitlements not Restricted to Specific Programs			1,391,507
Interest			3,519
Miscellaneous			24,184
<b>Total General Receipts</b>			<b>1,419,210</b>
Change in Net Assets			347,958
Net Assets Beginning of Year			1,217,210
Net Assets End of Year			<b>\$1,565,168</b>

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, 2010**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,492,889	\$1	\$41,139	\$1,534,029
<b>Restricted Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	31,139			31,139
Total Assets	<u>1,524,028</u>	<u>1</u>	<u>41,139</u>	<u>1,565,168</u>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Encumbrances	12,503		6,184	18,687
Unclaimed Monies	31,139			31,139
Unreserved, Designated for Termination Benefits			20,000	20,000
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	1,480,386			1,480,386
Special Revenue Funds		1	14,955	14,956
Total Fund Balances	<u>\$1,524,028</u>	<u>\$1</u>	<u>\$41,139</u>	<u>\$1,565,168</u>

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, 2010**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts:</b>				
Intergovernmental	\$1,391,507	\$757,485	\$290,890	\$2,439,882
Interest	3,519			3,519
Tuition and Fees	87,297		800	88,097
Extracurricular Activities	4,002		6,600	10,602
Gifts and Donations	81,772			81,772
Contract Services	3,186,571			3,186,571
Miscellaneous	28,661			28,661
Total Receipts	<u>4,783,329</u>	<u>757,485</u>	<u>298,290</u>	<u>5,839,104</u>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	48,872		115,726	164,598
Special	2,409,148			2,409,148
<b>Support Services:</b>				
Pupils	1,050,172		51,075	1,101,247
Instructional Staff	319,320		7,249	326,569
Board of Governors	52,237			52,237
Administration	315,952		29,350	345,302
Fiscal	103,362			103,362
Business	6,057			6,057
Operation and Maintenance of Plant	53,636			53,636
Pupil Transportation	55,640		425	56,065
Central	20,767			20,767
<b>Debt Service:</b>				
Principal	2,025			2,025
Interest	28			28
Intergovernmental		757,485	88,142	845,627
Total Disbursements	<u>4,437,216</u>	<u>757,485</u>	<u>291,967</u>	<u>5,486,668</u>
Excess of Receipts Over Disbursements	<u>346,113</u>		<u>6,323</u>	<u>352,436</u>
<b>Other Financing Sources (Uses):</b>				
Advances In	22,100		22,304	44,404
Refund of Prior Year Disbursements	2,522			2,522
Advances Out	(22,304)		(22,100)	(44,404)
Refund of Prior Year Receipts			(7,000)	(7,000)
Total Other Financing Sources (Uses)	<u>2,318</u>		<u>(6,796)</u>	<u>(4,478)</u>
Net Change in Fund Balances	348,431		(473)	347,958
Fund Balance at Beginning of Year, Restated	<u>1,175,597</u>	<u>1</u>	<u>41,612</u>	<u>1,217,210</u>
Fund Balance at End of Year	<u>\$1,524,028</u>	<u>\$1</u>	<u>\$41,139</u>	<u>\$1,565,168</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, 2010

	<u>Agency</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$140,995
Total Assets	<u>140,995</u>
<b>Net Assets:</b>	
<b>Held for:</b>	
Employers	20,824
Scholarships	1,853
Other Governments	118,318
Total Net Assets	<u>\$140,995</u>

*See accompanying notes to the financial statements.*

**This page intentionally left blank.**

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**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, Inc., Schools of Ohio Risk Sharing Authority, OASBO Workers' Compensation Group Rating Plan, and Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 12 and 13 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. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. 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 END  
(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.

**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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

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 2010:

**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.

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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

**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 any 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 schedule 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.

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 2010 were \$3,519 which includes \$48 assigned from other funds.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

**E. Restricted Assets**

Assets are reported as restricted when limitations on their use changes 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 2010, these funds included the Special Education Grants to States (Part B-IDEA) and Special Education Preschool Grant. The intergovernmental disbursements have been allocated to the programs on the entity-wide statement of activities.

**L. Interfund Transactions**

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

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. See Note 14 for further details on fiscal year 2010 interfund transactions.

**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 8 and 9, 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.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net assets are available.

**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.

**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.



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

**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. IMPLEMENTATION OF NEW ACCOUNTING POLICIES AND ACCOUNTING CHANGE**

**A. Implementation of New Accounting Policies**

For the year ended June 30, 2010, the School District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments," and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies."

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

**A. Restatement of Fund Balance**

In the prior period, the Termination Benefits Special Revenue Fund was rolled into the General Fund, rather than being presented in the Other Governmental Funds. This restatement has the following effect on the beginning fund balances:

	<b>General Fund</b>	<b>Other Governmental Funds</b>
June 30, 2009 Fund Balance	\$1,195,597	\$21,612
Termination Benefits Fund Balance	(20,000)	20,000
Restated June 30, 2009 Fund Balance	\$1,175,597	\$41,612

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**4. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code, Section 117-2-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service 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 Service Center can be fined and various other administrative remedies may be taken against the Service Center.

**5. 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.

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;

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

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;
6. The State Treasurer's investment pool (STAROhio);
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; and
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.

**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, 2010, the carrying amount of the Service Center's deposits was \$1,706,038 and the bank balance was \$1,987,675. Of the bank balance, \$1,223,172 was covered by federal depository insurance and \$764,503 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**6. 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 \$33.00. 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.

**B. State Foundation Distributions 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.

**C. 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**7. 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 2010, 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 2010, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property \	
Building and Business (No deductible)	\$1,839,250
Earth Movement Limit (\$50,000 deductible)	2,000,000
Flood Limit (\$50,000 deductible)	2,000,000
Equipment Breakdown (No deductible)	50,000,000
CFC Refrigerants (No deductible)	250,000
Hazardous Substance Contamination (No deductible)	250,000
Spoilage (No deductible)	250,000
Expediting Expenses (No deductible)	250,000
Crime Coverage	
Employee Dishonesty (No deductible)	100,000
Forgery or Alteration (No deductible)	100,000
Computer Fraud (No deductible)	100,000
Theft, Disappearance and Destruction (No deductible)	100,000
General Liability	
Bodily Injury and Property Damage (No deductible)	5,000,000
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)	2,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	2,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	2,000,000
Aggregate Limit (No deductible)	2,000,000
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 (No deductible)	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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**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.

**8. PENSION PLANS**

**A. State Teachers Retirement System**

The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**8. PENSION PLANS**

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

For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. For fiscal year 2010, the Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The Service Center's required contributions for obligations to STRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$236,840, \$278,219, and \$363,416, respectively; 88 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$553 made by the Service Center and \$9,033 made by the plan members.

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. For fiscal year 2010, it was determined the employer contribution rate to pension and death benefits to be 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

The Service Center's required contribution for obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$129,255, \$98,378, and \$108,135, respectively; equal to required contributions for each year.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2010, two members of the Board of Governors have elected Social Security. The contribution rate is 6.2 percent of wages.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio ("STRS Ohio"), and to retired non-certified employees and their dependents through the School Employees Retirement System ("SERS"). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

**A. State Teachers Retirement System**

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2010, 2009 and 2008. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The Service Center's contributions for post employment health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$18,219, \$21,401, and \$28,001, respectively; 88 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund (the "Fund"). At June 30, 2009 (the latest information available), the balance in the Fund was \$2.7 billion. For the fiscal year ended June 30, 2009, net health care costs paid by STRS Ohio were \$298,110,000 and STRS Ohio had 129,659 eligible benefit recipients.

**B. School Employees Retirement System**

**Medicare Part B Plan**

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code ("ORC") 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was 0.76 percent. The Service Center's contributions for the fiscal years ended June 30, 2010, 2009 and 2008 were \$7,687, \$7,088, and \$7,791, respectively, which equaled the required contributions each year.



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

**C. Health Care Plan**

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2010, the health care allocation was .46 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Service Center's contributions for the years ended June 30, 2010, 2009 and 2008 were \$4,652, \$44,893, and \$49,345, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**10. 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 Metropolitan Educational Council.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

**11. DEBT OBLIGATIONS**

The changes in the Service Center’s debt obligations during fiscal year 2010 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/10</u>
2007 Lease – Vehicle	3.65%	\$ 2,025	\$ 0	\$ 2,025	\$ 0
2010 Lease – Vehicle	2.5%	<u>0</u>	<u>10,318</u>	<u>1,433</u>	<u>8,885</u>
Total		\$2,025	\$10,318	\$3,458	\$8,885

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

On February 26, 2010, the Service Center entered into a lease agreement for a 2010 Chevrolet Malibu. The overall principal and interest of the lease was in the amount of \$10,318, at an interest rate of 2.5 percent. The lease was issued for a three year period, with monthly payments of \$287, including principal and interest. The lease will mature on February 25, 2013.

**12. 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

**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.

**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.

**13. 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR END  
(Continued)**

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

**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, Huntington Bank, concerning aspects of the administration of the Trust.

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.

**14. INTERFUND ACTIVITY**

During fiscal year 2010, the Service Center had the following interfund activity:

	<u>Advances-In</u>	<u>Advances-Out</u>
<b>Governmental:</b>		
General Fund	\$22,100	\$22,304
Other Governmental Funds		
Parent Mentor Grant	8,948	3,400
Psychologist Intern	4,333	1,000
21 <sup>st</sup> Century Grant		16,100
Learn and Serve Grant	9,023	1,600
Total Other Governmental	22,304	22,100
Total Governmental	\$44,404	\$44,404

Short term loans or advances were made during fiscal year 2010 from the General Fund to cover expenditures made by separate funds awaiting reimbursement by granting authorities. Advances made by Other Governmental funds to the General Fund were repayment of outstanding loans from prior year.

During fiscal year 2010, the Service Center had no transfers between separate funds.

**15. 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, 2010.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN CASH BASIS FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Receipts:</b>				
Intergovernmental			\$1,391,507	
Interest			3,519	
Tuition and Fees			87,297	
Extracurricular Activities			4,002	
Gifts and Donations			81,772	
Contract Services			3,186,571	
Miscellaneous			28,661	
Total Receipts			4,783,329	
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	\$123,547	\$122,547	48,872	\$73,675
Special	2,994,488	3,061,588	2,413,296	648,292
<b>Support Services:</b>				
Pupils	1,314,912	1,313,912	1,050,172	263,740
Instructional Staff	457,804	458,504	319,320	139,184
Board of Governors	99,585	99,585	52,237	47,348
Administration	322,000	322,300	317,556	4,744
Fiscal	106,616	106,616	103,562	3,054
Business	15,000	15,000	12,413	2,587
Operation and Maintenance of Plant	75,345	75,345	53,831	21,514
Pupil Transportation	60,000	60,000	55,640	4,360
Central	21,300	21,300	20,767	533
<b>Extracurricular Activities:</b>				
School and Public Service Co-Curricular Activity	10,800	10,800		10,800
<b>Debt Service:</b>				
Principal			2,025	(2,025)
Interest			28	(28)
Total Disbursements	\$5,601,397	\$5,667,497	4,449,719	\$1,217,778
Excess of Receipts Over Disbursements			333,610	
<b>Other Financing Sources (Uses):</b>				
Advances In			22,100	
Refund of Prior Year Disbursements			2,522	
Advances Out			(22,304)	
Total Other Financing Sources (Uses)			2,318	
Net Change in Fund Balances			335,928	
Fund Balance at Beginning of Year			1,171,397	
Prior Year Encumbrances Appropriated			4,200	
Fund Balance at End of Year			\$1,511,525	

See accompanying notes to the supplementary information.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH  
BASIS FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**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, for 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 for the General Fund is at the 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 2010, there were modifications 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 year-end 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 Schedule of Cash Receipts, Disbursements and Change 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.

**C. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis). The adjustments necessary to reconcile the cash and budget basis statements are as follows:

MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

NOTES TO THE SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH  
BASIS  
FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)

	<u>General Fund</u>
Cash Basis	\$1,524,028
Encumbrance Outstanding	<u>(12,503)</u>
Budget Basis	<u><u>\$1,511,525</u></u>

**This page intentionally left blank.**



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass-Through Agency Program Titles</b>	<b>Federal CFDA Number</b>	<b>Project Number</b>	<b>Receipts</b>	<b>Expenditures</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	2010	\$757,485	\$757,485
Special Education Preschool Grants- ARRA	84.392	2010	33,580	33,580
Special Education Preschool Grants	84.173	2010	<u>54,563</u>	<u>54,563</u>
Total Special Education Cluster			<u>845,628</u>	<u>845,628</u>
Twenty First Century Community Learning Centers	84.287	2009	17,291	1,200
		2010	<u>75,000</u>	<u>67,298</u>
Total Twenty First Century Community Learning Centers			<u>92,291</u>	<u>68,498</u>
Title I Grants to Local Educational Agencies	84.010	2010	<u>2,300</u>	<u>2,300</u>
Total U.S. Department of Education			940,219	916,426
<b>Corporation for National and Community Service</b> (Passed through the Ohio Department of Education)				
Learn and Serve America School and Community Based Programs	94.004	2009	1,586	
		2010	<u>5,977</u>	<u>15,000</u>
Total Learn and Serve America School and Community Based Programs			7,563	15,000
Total Federal Financial Assistance			<u>\$947,782</u>	<u>\$931,426</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, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Mercer County Educational Service Center's (the Center) federal award program expenditures. The schedule has been prepared on the cash basis of accounting.

**NOTE B – FEDERAL AWARDS ADMINISTERED FOR OTHER GOVERNMENTS**

The Center applies for and administers grants on behalf of member school districts. The Center reports these grants on their schedule of federal awards expenditures programs and they are subject to audit during the Center's annual audit according to the Single Audit Act (A-133). Awards which were reported by the Center which benefit member districts are as follows:

<u>District</u>	<u>FY10 Award Amount IDEA Part-B</u>	<u>FY10 Award Amount IDEA Early Childhood</u>	<u>FY10 Award Amount IDEA Early Childhood ARRA</u>
Coldwater Exempted Village School District		\$19,360	\$8,935
Ft Recovery Local School District	\$194,878	7,811	5,916
Marion Local School District	163,139	13,144	5,483
Parkway Local School District	227,080	7,415	6,980
St Henry Consolidated Local School District	172,388	6,833	6,266
<b>Total</b>	<u>\$757,485</u>	<u>\$54,563</u>	<u>\$33,580</u>

**NOTE C – ADMINISTRATIVE AGENT**

The Mercer County Educational Service Center (the Center) is the Administrative Agent for the Mercer County Family and Children First Council in that capacity, the 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 Receipts and Expenditures for the Center. The federal grant is considered to be part of the Mercer County Family and Children First Council, which issues a separate financial report.



# 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 Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County Educational Service Center, Mercer County, (the Center) as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 19, 2010, wherein we noted the Center uses a comprehensive accounting basis other than generally accepted accounting principles. We also noted the Center restated its General Fund and Other Governmental Funds as of July 1, 2009 as stated in Note 3. 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 Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the 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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated November 19, 2010.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

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

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

November 19, 2010



# Mary Taylor, CPA

Auditor of State

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

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

To the Members of the Board:

### Compliance

We have audited the compliance of Mercer County Educational Service Center, Mercer County (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that directly and materially affect the Center's major federal program for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The 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 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 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 Center's compliance with those requirements.

In our opinion, the Mercer County Educational Service Center, Mercer County complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2010.

### Internal Control Over Compliance

The 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 Center's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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, Members of the 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

November 19, 2010

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster: Special Education – Grants to States CFDA# 84.027 Special Education - Preschool Grants CFDA # 84.173 Special Education – Preschool Grants – ARRA CFDA #84.392
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2010-001**

**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 reports accordance with generally accepted accounting principles (GAAP). However, the Service Center prepared 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 present assets, liabilities and the disclosures required to accurately present the Service Center's financial conditions, the Service Center should prepare its 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.

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

None



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

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>
2009-001	Ohio Rev. Code Section 117.38 & Ohio Admin. Code Section 117-2-03(B) – Failed to prepare financial statements in accordance with GAAP	No	Repeated as Finding Number 2010-001

**This Page is Intentionally Left Blank.**



**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  
DECEMBER 16, 2010**