



Dave Yost • Auditor of State

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

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Dave Yost • 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, Ohio (the Center), as of and for the year ended June 30, 2011, 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, 2011, 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, during 2011, the Center adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2012, 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.

We conducted our audit to opine on the Center's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, change in net assets, and governmental activities. The Schedule of Cash Receipts, Disbursements, and Change in Fund Balance Budget and Actual – Budget Basis General Fund (the Budgetary Schedule) is supplementary information. The Schedule of Federal Awards Receipts and Expenditures (the Federal Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedules provide additional information, but are not part of the basic financial statements. However these tables and the Schedules are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on them.



Dave Yost
Auditor of State

March 12, 2012

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2011. 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 2011 are as follows:

- In 2011, General Receipts accounted for \$1,217,903 or 22 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants, contributions and interest accounted for \$4,379,471 or 78 percent of total receipts of \$5,597,374.
- In 2011, total program disbursements were \$5,299,381.
- In 2011, net assets increased in total by \$297,993.

Using this Annual Report

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

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Service Center, the General Fund and Part B – IDEA Fund are the most significant funds.

Basis of Accounting

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

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

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 2011?" 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 and support services.

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, 2011
(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 2011 and 2010:

(Table 1)
Net Assets – Cash Basis

	Governmental Activities	
	2011	2010
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$1,863,161	\$1,565,168
Total Assets	<u>1,863,161</u>	<u>1,565,168</u>
Net Assets:		
Restricted for:		
Other Purposes	19,660	21,140
Unclaimed Monies		31,139
Unrestricted	<u>1,843,501</u>	<u>1,512,889</u>
Total Net Assets	<u>\$1,863,161</u>	<u>\$1,565,168</u>

At June 30, 2011 and 2010, net assets restricted for other purposes represented 1.1 percent and 1.4 percent, respectively, of total governmental net assets. During fiscal year 2011, governmental net assets increased \$297,993, or 19.0 percent over fiscal year 2010. 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 2011 and 2010. 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

	Governmental Activities	
	2011	2010
Program Receipts:		
Charges for Services and Sales	\$3,262,536	\$3,285,270
Operating Grants and Contributions	1,116,935	1,130,146
General Receipts:		
Grants and Entitlements	1,152,459	1,391,507
Interest	3,234	3,519
Miscellaneous	<u>62,210</u>	<u>24,184</u>
Total Receipts	<u>5,597,374</u>	<u>5,834,626</u>
Program Disbursements:		
Instruction	3,342,603	3,329,260
Support Services	1,956,778	2,155,355
Debt Service		2,053
Total Disbursements	<u>5,299,381</u>	<u>5,486,668</u>
Increase in Net Assets	<u>\$ 297,993</u>	<u>\$ 347,958</u>

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 \$4.3 million in fiscal year 2011 and \$4.4 million during 2010. Almost all receipts and all disbursements decreased proportionately in fiscal year 2011. With the combination of charges for services and operating grants funding at over 78 percent of total receipts in governmental activities, the Service Center monitors both of these receipt sources very closely for fluctuations.

Receipts decreased 4.1 percent and disbursements decreased 3.4 percent during fiscal year 2011. 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**

	2011		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$3,342,603	\$230,864	\$3,329,260	\$ 331,016
Support Services:				
Pupil and Instructional Staff	1,383,543	332,442	1,517,929	367,051
Board of Governors, Administration				
Fiscal and Business	459,301	242,670	506,958	240,664
Operation and Maintenance of Plant	35,668	35,668	53,636	53,636
Pupil Transportation	55,476	55,476	56,065	56,065
Central	18,879	18,879	20,767	20,767
Extracurricular Activities	3,911	3,911		
Debt Service			2,053	2,053
Total	\$5,299,381	\$919,910	\$5,486,668	\$1,071,252

In fiscal year 2011, instruction and student support services comprise 89.2 percent of governmental program disbursements. Fiscal, administration, board of governors and business charges were 8.6 percent. All other disbursements account for 2.2 percent.

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 \$1,854,477, or 99.5 percent of the \$1,863,161 in total governmental funds' assets.

General Fund - Fund balance at June 30, 2011 was \$1,854,477, including \$1,704,372, or 91.9 percent, of unassigned balance. General fund disbursements for fiscal year 2011 were \$4,319,565, or 81.5 percent of total governmental disbursements of \$5,299,381.

Part B - IDEA Fund - Fund balance remained constant during fiscal year 2011 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, 2011
(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 2011, 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 2011 were \$4.3 million, approximately \$1.4 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 2011, the Service Center had debt including a vehicle lease. See Note 10 for additional details.

Current Issues

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

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

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

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 brandonm@mc.noacs.org.

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MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,831,668
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	31,493
Total Assets	<u>1,863,161</u>
Net Assets:	
Restricted for Other Purposes	19,660
Unrestricted	1,843,501
Total Net Assets	<u>\$1,863,161</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, 2011**

	Program Receipts		Net (Disbursement) Receipt and Changes in Net Assets
Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:			
Current:			
Instruction:			
Regular	\$134,323		\$116,294
Special	3,208,280	\$2,051,524	(347,158)
Support services:			
Pupils	1,060,018	755,943	(250,355)
Instructional staff	323,525	241,438	(82,087)
Board of Governors	55,039		(55,039)
Administration	294,045	213,631	(77,414)
Fiscal	102,291		(102,291)
Business	7,926		(7,926)
Operation and maintenance of plant	35,668		(35,668)
Pupil transportation	55,476		(55,476)
Central	18,879		(18,879)
Extracurricular activities	3,911		(3,911)
Total Governmental Activities	<u>\$5,299,381</u>	<u>\$3,262,536</u>	<u>\$1,116,935</u>
 General Receipts:			
Grants and Entitlements not Restricted to Specific Programs			1,152,459
Interest			3,234
Miscellaneous			62,210
Total General Receipts			<u>1,217,903</u>
Change in Net Assets			297,993
Net Assets Beginning of Year			<u>1,565,168</u>
Net Assets End of Year			<u>\$1,863,161</u>

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, 2011**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,822,984		\$8,684	\$1,831,668
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	31,493			31,493
Total Assets	<u>1,854,477</u>		<u>8,684</u>	<u>1,863,161</u>
Fund Balances:				
Restricted			8,684	8,684
Non-spendable	31,493			31,493
Assigned	14,748			14,748
Committed	103,864			103,864
Unassigned	1,704,372			1,704,372
Total Fund Balances	<u>\$1,854,477</u>	<u>\$0</u>	<u>\$8,684</u>	<u>\$1,863,161</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, 2011**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Intergovernmental	\$1,155,892	\$754,354	\$231,085	\$2,141,331
Interest	3,234			3,234
Contracted Services	3,219,376			3,219,376
Extracurricular Activities	3,068			3,068
Gifts and Donations	81,772			81,772
Tuition and Fees	40,090			40,090
Miscellaneous	103,993			103,993
Total Receipts	<u>4,607,425</u>	<u>754,354</u>	<u>231,085</u>	<u>5,592,864</u>
Disbursements:				
Current:				
Instruction:				
Regular	37,764		96,559	134,323
Special	2,399,306			2,399,306
Support Services:				
Pupils	1,000,861		59,157	1,060,018
Instructional Staff	319,661		3,864	323,525
Board of Governors	55,039			55,039
Administration	282,845		11,200	294,045
Fiscal	102,291			102,291
Business	7,926			7,926
Operation and Maintenance of Plant	32,229			32,229
Pupil Transportation	55,414		62	55,476
Central	18,879			18,879
Extracurricular Activities	3,911			3,911
Debt Service:				
Principal	3,439			3,439
Intergovernmental		754,355	54,619	808,974
Total Disbursements	<u>4,319,565</u>	<u>754,355</u>	<u>225,461</u>	<u>5,299,381</u>
Excess of Receipts Over Disbursements	<u>287,860</u>	<u>(1)</u>	<u>5,624</u>	<u>293,483</u>
Other Financing Sources (Uses):				
Advances In	22,304		14,575	36,879
Refund of Prior Year Disbursements	3,884		626	4,510
Advances Out	(14,575)		(22,304)	(36,879)
Total Other Financing Sources (Uses)	<u>11,613</u>		<u>(7,103)</u>	<u>4,510</u>
Net Change in Fund Balances	299,473	(1)	(1,479)	297,993
Fund Balance at Beginning of Year - Restated (Note 3)	<u>1,555,004</u>	<u>1</u>	<u>10,163</u>	<u>1,565,168</u>
Fund Balance at End of Year	<u>\$1,854,477</u>	<u>\$0</u>	<u>\$8,684</u>	<u>\$1,863,161</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, 2011

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$205,175</u>
Total Assets	<u><u>205,175</u></u>
Net Assets:	
Held for:	
Other Governments	<u>205,175</u>
Total Net Assets	<u><u>\$205,175</u></u>

See accompanying notes to the financial statements.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 organization 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, 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 11 and 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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 ENDED JUNE 30, 2011
(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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

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

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

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2011:

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.

Other governmental funds of the Service Center are used to account for grants and other resources to which the Service Center is bound to observe constraints imposed upon the use of the resources.

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 market value. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2011 were \$3,234 which includes \$195 assigned from other funds.

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 2011, 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Transactions

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

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

The Service Center reports advance-in and advance-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. See Note 14 for further details on fiscal year 2011 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 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Equity Classifications

1. Government-Wide Statements

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

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

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. Fund balance is divided into five classifications based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- a. Non-spendable** - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. Restricted** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Governors. The committed amounts cannot be used for any other purpose unless the Board of Governors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned** - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Governors.
- e. Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

O. Receipts and Disbursements

1. Program Receipts

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

2. Disbursements

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Changes in Accounting Principles

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions”* and GASB Statement No. 59, *“Financial Instruments Omnibus.”*

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the Service Center.

3. RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2011, the Service Center modified its financial statements to reflect the modifications outlined in GASB Statement No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions”*.

The restatement had the following effect on fund balances as of June 30, 2010:

	General Fund	Part B – IDEA Fund	All Other Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2010	\$1,524,028	\$1	\$41,139	\$1,565,168
Change in Fund Structure	30,976		(30,976)	
Restated Fund Balance at July 1, 2010	<u>\$1,555,004</u>	<u>\$1</u>	<u>\$10,163</u>	<u>\$1,565,168</u>

The restatement had no effect on the governmental or fiduciary net assets.

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Service Center into three categories.

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

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

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

4. DEPOSITS AND INVESTMENTS (Continued)

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;
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.

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

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

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

At June 30, 2011, the carrying amount of the Service Center's deposits was \$2,068,211 and the bank balance was \$2,184,889. Of the bank balance, \$1,160,206 was covered by federal depository insurance and \$1,024,683 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 un-deposited cash on hand which is included in the end of year fund cash balances.

5. PRIMARY RECEIPT SOURCES

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. PRIMARY RECEIPT SOURCES (Continued)

B. State Foundation Distributions

1. Amounts Paid by the Local School Districts

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

These amounts are all reported as contract services.

2. Amounts Paid under Contract by Local School Districts

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

These amounts also represent contract services.

6. RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2011, 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 2011, 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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

6. RISK MANAGEMENT (Continued)

General Liability	
Bodily Injury and Property Damage (No deductible)	6,000,000
Personal Injury/Advertising Liability (No deductible)	6,000,000
Products/Completed Operations (No deductible)	6,000,000
Employee Benefits Liability (No deductible)	6,000,000
Employers Stop Gap Liability	
Bodily Injury by Accident (Per Accident) (No deductible)	6,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	6,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	6,000,000
Aggregate Limit (No deductible)	6,000,000
General Annual Aggregate	8,000,000
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)	6,000,000
Wrongful Acts Coverage Aggregate	6,000,000
Automobile Liability and Physical Damage	
Bodily Injury & Property Damage (Per Occurrence) (No deductible)	6,000,000
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.

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. Life insurance is available for employees who meet full-time requirements. This is provided by Metropolitan Educational Council.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. PENSION PLANS

A. State Teachers Retirement System

The Service Center participates in the State Teachers Retirement System of Ohio ("STRS"), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS 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, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS website at 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.

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, 2011, plan members were required to contribute 10 percent of their annual covered salaries. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$334,340, \$236,840, and \$278,219, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$10,270 made by the Service Center and \$7,335 made by the plan members.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. PENSION PLANS (Continued)

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 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 2011, it was determined the employer contribution rate to pension and death benefits to be 11.81 percent. The remaining 2.19 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, 2011, 2010 and 2009 were \$107,360, \$129,255, and \$98,378, 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, 2011, two members of the Board of Governors have elected Social Security. The contribution rate is 6.2 percent of wages.

8. 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, 2011, 2010 and 2009. 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, 2011, 2010 and 2009 were \$25,718, \$18,219, and \$21,401, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

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 2011 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 2011, the actuarially required allocation was 0.76 percent. The Service Center's contributions for the fiscal years ended June 30, 2011, 2010 and 2009 were \$6,909, \$7,687, and \$7,088, respectively, which equaled the required contributions each year.

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, 2011, the health care allocation was 1.43 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 2011, 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, 2011, 2010 and 2009 were \$13,000, \$4,652, and \$44,839, 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 under Employers/Audit Resources.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. OTHER EMPLOYEE BENEFITS

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

10. DEBT OBLIGATIONS

The changes in the Service Center's debt obligations during fiscal year 2011 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/11</u>
2010 Lease - Vehicle	2.5%	\$8,885	\$0	\$3,439	\$5,446

Lease Payable - Vehicle - On February 26, 2010, the Service Center entered into a lease agreement for a 2010 Chevrolet Malibu. The overall principal of the lease was in the amount of \$10,318, at an interest rate of 2.25 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.

Future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$3,439
2013	2,007
Total	<u>\$5,446</u>

11. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative ("NOACSC"), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Allen, Paulding, Putnam, and Van Wert Counties and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

B. Mercer County Local Professional Development Committee

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Northwestern Ohio Educational Research Council, Inc.

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

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

12. INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

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

B. OASBO Workers' Compensation Group Rating Plan

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

C. Mercer Auglaize Employee Benefit Trust

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

12. INSURANCE PURCHASING POOLS (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Glenn Szana, Group Health Care, Greenwood Centre, 1616 East Wooster, #20, Bowling Green, Ohio 43402.

13. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Non-Spendable for:			
Unclaimed Monies	\$ 31,493		\$ 31,493
Total Non-Spendable	<u>31,493</u>		<u>31,493</u>
Restricted for:			
Educational Grants		\$8,684	8,684
Total Restricted		<u>8,684</u>	<u>8,684</u>
Committed to:			
Educational Activities	103,864		103,864
Total Committed	<u>103,864</u>		<u>103,864</u>
Assigned to:			
Unpaid Obligations	14,748		14,748
Total Assigned	<u>14,748</u>		<u>14,748</u>
Unassigned	1,704,372		1,704,372
Total Fund Balance	<u>\$1,854,477</u>	<u>\$8,684</u>	<u>\$1,863,161</u>

14. INTERFUND ACTIVITY

During fiscal year 2011, the Service Center had the following interfund activity:

	<u>Advances-In</u>	<u>Advances-Out</u>
Governmental:		
General Fund	\$22,304	\$14,575
Other Governmental Funds:		
Parent Mentor Grant	5,475	8,948
Psychologist Intern		4,333
21 st Century Grant	4,500	
Learn and Serve Grant	4,600	9,023
Total Other Governmental	<u>14,575</u>	<u>22,304</u>
Total Governmental	<u>\$36,879</u>	<u>\$36,879</u>

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. INTERFUND ACTIVITY (Continued)

Short term loans or advances were made during fiscal year 2011 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 2011, 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, 2011.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Receipts:				
Intergovernmental			\$1,155,892	
Interest			3,234	
Tuition and Fees			2,959,533	
Extracurricular Activities			3,068	
Gifts and Donations			81,772	
Contract Services			299,933	
Miscellaneous			63,993	
Total Receipts			4,567,425	
Disbursements:				
Current:				
Instruction:				
Regular	\$123,547	\$123,547	37,766	\$85,781
Special	3,066,736	3,114,536	2,404,125	710,411
Support Services:				
Pupils	1,318,079	1,330,079	996,719	333,360
Instructional Staff	469,854	469,854	324,869	144,985
Board of Governors	85,085	85,085	55,207	29,878
Administration	323,904	323,904	283,002	40,902
Fiscal	106,816	106,816	102,316	4,500
Business	21,356	21,356	14,282	7,074
Operation and Maintenance of Plant	75,540	75,540	35,763	39,777
Pupil Transportation	60,000	60,000	55,414	4,586
Central	26,300	26,300	18,879	7,421
Total Disbursements	\$5,677,217	\$5,737,017	4,328,342	\$1,408,675
Excess of Receipts Over Disbursements			239,083	
Other Financing Sources (Uses):				
Advances In			22,304	
Refund of Prior Year Disbursements			1,535	
Advances Out			(22,978)	
Total Other Financing Sources (Uses)			861	
Net Change in Fund Balances			239,944	
Fund Balance at Beginning of Year - Restated (Note D)			1,482,742	
Prior Year Encumbrances Appropriated			12,703	
Fund Balance at End of Year			\$1,735,389	

See accompanying notes to the supplementary information.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN FUND
BALANCE
BUDGET AND ACTUAL – BUDGET BASIS – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 2011, 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 appropriated.

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).

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN FUND
BALANCE
BUDGET AND ACTUAL – BUDGET BASIS – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

C. BUDGETARY BASIS OF ACCOUNTING (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Balance	
	General Fund
Budget basis	\$239,944
Funds budgeted elsewhere**	42,398
Adjustment for encumbrances	17,131
Cash basis	\$299,473

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the pension savings fund, unclaimed monies and the MECA program.

D. RESTATEMENT OF FUND BALANCES/NET ASSETS

For fiscal year 2011, the School District modified its financial statements to reflect the modifications outlined in GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. Pursuant to GASB Statement No. 54, only the legally budgeted general fund should be reported in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary –basis fund balance at June 30, 2010 is as follows:

Budgetary Basis	
	General Fund
Balance at June 30, 2010	\$1,511,525
Funds budgeted elsewhere	(28,783)
Restated balance at June 1, 2010	\$1,482,742

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Agency Program Titles	Federal CFDA Number	Project Number	Receipts	Disbursements
U.S. Department of Education (Passed through the Ohio Department of Education)				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	2011	\$754,354	\$754,354
Special Education Preschool Grants	84.173	2011	54,619	54,619
Total Special Education Cluster			<u>808,973</u>	<u>808,973</u>
 (Passed through the Ohio Department of Health)				
<i>Early Intervention Services (IDEA) Cluster</i>				
Special Education-Grants for Infants and Families	84.181	2011 2010	44,450	52,646 1,794
Total Special Education-Grants for Infants and Families			<u>44,450</u>	<u>54,440</u>
ARRA Special Education - Grants for Infants and Families, Recovery Act	84.393	2011	<u>35,199</u>	<u>35,199</u>
Total Early Intervention Services (IDEA) Cluster			<u>79,649</u>	<u>89,639</u>
Twenty First Century Community Learning Centers	84.287	2011 2010	43,669	46,882 7,702
Total Twenty First Century Community Learning Centers			<u>43,669</u>	<u>54,584</u>
 Corporation for National and Community Service (Passed through the Ohio Department of Education)				
Learn and Serve America School and Community Based Programs	94.004	2011 2010	10,445 9,023	11,590
Total Learn and Serve America School and Community Based Programs			<u>19,468</u>	<u>11,590</u>
Total Federal Financial Assistance			<u><u>\$951,759</u></u>	<u><u>\$964,786</u></u>

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2011**

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 programs' receipts and 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>FY 11 Award Amount IDEA Part-B</u>	<u>FY 11 Award Amount IDEA Early Childhood</u>
Coldwater Exempted Village School District		\$19,294.98
Ft Recovery Local School District	\$195,180.21	7,895.73
Marion Local School District	163,321.19	13,185.91
Parkway Local School District	227,622.64	7,369.52
St Henry Consolidated Local School District	168,230.14	6,872.90
Total	754,354.18	54,619.04

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.



Dave Yost • 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 fiscal year ended June 30, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 12, 2012, wherein we noted the Center uses a comprehensive accounting basis other than generally accepted accounting principles and adopted the provisions of Government Accounting Standards Board Statement No 54, *Fund Balance and Governmental Fund Type Definitions*. 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 2011-01.

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 management, the audit committee, members of the Board, and federal awarding agencies and pass-through entities, and others within the Center. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 12, 2012



Dave Yost • 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 (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 could directly and materially affect the Mercer County Educational Service Center's major federal programs for the fiscal year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the Center's major federal programs. 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 opine on the Center's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, the Mercer County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2011.

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 noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated March 12, 2012.

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



Dave Yost
Auditor of State

March 12, 2012

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2011-01

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 file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2011, the Service Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain 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.

To help provide the users with more meaningful financial statements, the Service Center should prepare their annual financial statements according to generally accepted accounting principles.

Officials 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 FOR FEDERAL AWARDS

None

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	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 2011-01

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Dave Yost • Auditor of State

MERCER EDUCATIONAL SERVICE CENTER

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 24, 2012**