



**Auditor of State
Betty Montgomery**

EDUCATIONAL SERVICE CENTER
MERCER COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2003, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 15, 2003

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**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits:			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$697,049	\$25,545	\$47,314
Receivables:			
Accounts	32	16	
Intergovernmental	98,281	134,732	
Accrued Interest	699		
Interfund	61,600		
Prepaid Items	7,639	2,334	
Fixed Assets			
Other Debits:			
Amount to be Provided from General Governmental Resources			
Total Assets and Other Debits	865,300	162,627	47,314
Liabilities, Fund Equity, and Other Credits:			
Liabilities:			
Accounts Payable	9,594	23,692	
Contracts Payable			16,881
Accrued Wages and Benefits	551,334	8,228	
Compensated Absences Payable	9,594		
Intergovernmental Payable	107,024	2,553	
Interfund Payable		61,600	
Deferred Revenue	35,738	45,334	
Undistributed Assets			
Loans Payable			
Total Liabilities	713,284	141,407	16,881
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Fund Balance:			
Reserved for Encumbrances	3,045	19,760	130,457
Unreserved (Deficit)	148,971	1,460	(100,024)
Total Fund Equity and Other Credits	152,016	21,220	30,433
Total Liabilities, Fund Equity, and Other Credits	\$865,300	\$162,627	\$47,314

See Accompanying Notes to the General Purpose Financial Statements.

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
	\$13,546		\$783,454
			48
			233,013
			699
			61,600
			9,973
	\$552,337		552,337
		\$143,868	143,868
	<u>13,546</u>	<u>552,337</u>	<u>1,784,992</u>
			33,286
			16,881
			559,562
		48,845	58,439
			109,577
			61,600
			81,072
	13,546		13,546
		95,023	95,023
	<u>13,546</u>	<u>143,868</u>	<u>1,028,986</u>
			33,286
			16,881
			559,562
		48,845	58,439
			109,577
			61,600
			81,072
	13,546		13,546
		95,023	95,023
	<u>13,546</u>	<u>143,868</u>	<u>1,028,986</u>
			552,337
			552,337
			153,262
			50,407
	<u>552,337</u>		<u>756,006</u>
	\$13,546	\$143,868	\$1,784,992

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Revenues:				
Intergovernmental	\$4,138,362	\$840,293	\$66,000	\$5,044,655
Interest	7,105		1,053	8,158
Tuition and Fees	21,704			21,704
Rent	46,413			46,413
Customer Services	532,635			532,635
Extracurricular Activities	37,437			37,437
Gifts and Donations	2,568			2,568
Miscellaneous	212,710	48,135		260,845
Total Revenues	<u>4,998,934</u>	<u>888,428</u>	<u>67,053</u>	<u>5,954,415</u>
Expenditures:				
Current:				
Instruction:				
Regular	356,202	70,016		426,218
Special	2,270,444	41,577		2,312,021
Support Services:				
Pupils	1,533,617	165,475		1,699,092
Instructional Staff	346,508	37,599		384,107
Board of Education	78,892			78,892
Administration	266,490	31,354		297,844
Fiscal	72,574	569		73,143
Business	23,617			23,617
Operation and Maintenance of Plant	27,834	80,388		108,222
Central	4,685			4,685
Non-Instructional Services		3,922		3,922
Extracurricular Activities	19,193			19,193
Capital Outlay		21,838	36,620	58,458
Intergovernmental		439,830		439,830
Debt Service:				
Principal Retirement	26,638	3,383		30,021
Interest and Fiscal Charges	837	774		1,611
Total Expenditures	<u>5,027,531</u>	<u>896,725</u>	<u>36,620</u>	<u>5,960,876</u>
Excess of Revenues Over (Under) Expenditures	(28,597)	(8,297)	30,433	(6,461)
Fund Balances at Beginning of Year	<u>180,613</u>	<u>29,517</u>		<u>210,130</u>
Fund Balances at End of Year	<u>\$152,016</u>	<u>\$21,220</u>	<u>\$30,433</u>	<u>\$203,669</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$4,130,041	\$4,138,362	\$8,321
Interest	22,500	7,820	(14,680)
Tuition and Fees	7,954	23,220	15,266
Rent	55,500	46,413	(9,087)
Customer Services	513,658	479,968	(33,690)
Extracurricular Activities	46,493	37,437	(9,056)
Gifts and Donations		2,568	2,568
Miscellaneous	122,046	146,023	23,977
Total Revenues	4,898,192	4,881,811	(16,381)
Expenditures:			
Current:			
Instruction:			
Regular	385,900	341,359	44,541
Special	2,106,586	2,229,885	(123,299)
Support Services:			
Pupils	1,552,420	1,461,205	91,215
Instructional Staff	372,850	363,465	9,385
Board of Education	79,250	83,689	(4,439)
Administration	284,925	267,258	17,667
Fiscal	83,000	71,306	11,694
Business	27,000	23,624	3,376
Operation and Maintenance of Plant	56,700	25,613	31,087
Pupil Transportation			
Central	9,600	4,974	4,626
Non-Instructional Services			
Extracurricular Activities	39,600	23,577	16,023
Capital Outlay			
Debt Service:			
Principal Retirement	26,638	26,638	
Interest and Fiscal Charges	837	837	
Total Expenditures	5,025,306	4,923,430	101,876
 Excess of Revenues Under Expenditures	 (127,114)	 (41,619)	 85,495
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures	2,500	20,106	17,606
Other Financing Sources	11,750	13,500	1,750
Advances In			
Advances Out		(61,600)	(61,600)
Total Other Financing Sources (Uses)	14,250	(27,994)	(42,244)
 Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	 (112,864)	 (69,613)	 43,251
 Fund Balances at Beginning of Year	 748,210	 748,210	
Prior Year Encumbrances Appropriated	12,711	12,711	
Fund Balances (Deficit) at End of Year	\$648,057	\$691,308	\$43,251

See Accompanying Notes to the General Purpose Financial Statements.

Special Revenue Funds			Capital Projects Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$897,103	\$760,379	(\$136,724)	\$223,128	\$66,000 1,053	(\$157,128) 1,053
<u>897,103</u>	<u>760,379</u>	<u>(136,724)</u>	<u>223,128</u>	<u>67,053</u>	<u>(156,075)</u>
65,529	78,316	(12,787)			
290,428	290,239	189			
209,344	173,977	35,367			
228,658	225,112	3,546			
48,920	31,899	17,021			
115,726	82,635	33,091			
749		749			
3,500	3,762	(262)			
(3,500)	21,838	(25,338)	223,128	150,196	72,932
3,383	3,383				
774	774				
<u>963,511</u>	<u>911,935</u>	<u>51,576</u>	<u>223,128</u>	<u>150,196</u>	<u>72,932</u>
<u>(66,408)</u>	<u>(151,556)</u>	<u>(85,148)</u>		<u>(83,143)</u>	<u>(83,143)</u>
50,000	48,135	(1,865)			
	61,600	61,600			
<u>50,000</u>	<u>109,735</u>	<u>59,735</u>			
(16,408)	(41,821)	(25,413)		(83,143)	(83,143)
21,065	21,065				
6,307	6,307				
<u>\$10,964</u>	<u>(\$14,449)</u>	<u>(\$25,413)</u>	<u>\$0</u>	<u>(\$83,143)</u>	<u>(\$83,143)</u>

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**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

1. REPORTING ENTITY

The Mercer County Educational Service Center (the "Service Center") is located in Celina, Ohio, the county seat. The Service Center supplies supervisory, special education, administrative, and other services to the Ft. Recovery, Marion, Parkway, and St. Henry Local School Districts, the Coldwater Exempted Village School District, and the Celina City School District. The Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Service Center has ten administrators, fifty-seven classified employees, and sixty-six certified teaching personnel that provide services to 8,995 students from the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student-related activities.

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. Component units may also include 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. There are no component units of the Service Center.

The Service Center participates in five jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative (NWOACSC), the Mercer County Local Professional Development Committee, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center (SERRC), the Northwestern Ohio Educational Research Council, Inc., Ohio Risk Sharing Authority, OASBO Workers' Compensation Group Rating Plan, and the Mercer Auglaize Employee Benefit Trust. Information about these organizations is presented in Notes 15 and 16 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the Service Center's accounting policies.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

The Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations.

An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the Service Center are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the Service Center are financed. The acquisition, use, and balances of the Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Service Center's governmental fund types:

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

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

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Fiduciary Fund Type

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 are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: grants, interest, tuition, fees, rent, and customer services.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable.

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

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

Appropriations:

The annual appropriation resolution is enacted by the Service Center at the fund, function, and object level of expenditures for the General Fund, and fund and object level for all other funds. Prior to the passage of the annual appropriation measure, the Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Service Center.

The appropriation resolution, by fund, is limited by the estimated resources, and the total of expenditures and encumbrances is controlled so as not to exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations or object appropriations within functions in the General Fund are approved by the Service Center's Board.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Service Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts passed during the fiscal year. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures.

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. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Investments

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

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

The Service Center allocates interest according to State statute and Board of Education policy. Interest revenue credited to the General Fund during fiscal year 2003 was \$7,105, which included \$518 assigned from other Service Center funds.

For purposes of the combined balance sheet, 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, and not purchased from the pool, are reported as investments.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated fixed assets are recorded at their fair market value as of the date received. The Service Center maintains a capitalization threshold of five hundred dollars. The Service Center does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

G. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables".

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Service Center's termination policy. The Service Center records a liability for accumulated unused sick leave for employees after twenty years of service with the Service Center, or after fifteen years of service and at least forty-five years of age, or after ten years of service and at least fifty years of age.

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities and Long-Term Obligations

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

J. Fund Balance Reserves

The Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. A fund equity reserve has been established for encumbrances.

K. Flow-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the local school districts within the County. When the Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2003, this included the Indicators of Success and Title VI-B special revenue funds.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2003, the Meca, Title VI-B, and Indicators of Success special revenue funds had deficit fund balances, in the amount of \$1,373, \$2, and \$46,581, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2003:

<u>Fund Type/Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund			
Special Instruction	\$2,106,586	\$2,229,885	\$123,299
Board of Education	79,250	83,689	4,439
Special Revenue Funds			
Connectivity Grant			
Regular Instruction	0	3,500	3,500
Schoolnet Inservice			
Instructional Staff	1,000	1,585	585
Alternative Education Grant			
Special Instruction	6,600	6,603	3
Capital Outlay	(3,500)	21,838	25,338
Miscellaneous Federal Grants			
Regular	37,750	48,255	10,505
Non-Instructional Services	3,500	3,762	262

4. BUDGETARY BASIS OF ACCOUNTING

While the Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
GAAP Basis	(\$28,597)	(\$8,297)	\$30,433
Increase (Decrease) Due To:			
Revenue Accruals:			
Accrued FY 2002, Received in Cash FY 2003	25,002	8,278	0
Accrued FY 2003, Not Yet Received in Cash	(63,274)	(89,414)	0
Expenditure Accruals:			
Accrued FY 2002, Paid in Cash FY 2003	(609,447)	(6,133)	0
Accrued FY 2003, Not Yet Paid in Cash	677,546	34,473	16,881
Prepaid Items	(3,502)	(2,334)	0
Advances In	0	61,600	0
Advances Out	(61,600)	0	0
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(5,741)	(39,994)	(130,457)
Budget Basis	<u>(\$69,613)</u>	<u>(\$41,821)</u>	<u>(\$83,143)</u>

5. DEPOSITS AND INVESTMENTS

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

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

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

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

5. DEPOSITS AND INVESTMENTS

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 (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligation 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

5. DEPOSITS AND INVESTMENTS

At fiscal year end, the Service Center had \$13,343 in undeposited cash on hand which is included on the balance sheet of the Service Center as part of "Equity in Pooled Cash and Cash Equivalents".

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

At fiscal year end, the carrying amount of the Service Center's deposits was \$687,806 and the bank balance was \$1,035,690. Of the bank balance, \$225,086 was covered by federal depository insurance and \$710,604 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Service Center to a successful claim by the FDIC. Included in the School District's deposits was \$120,000 held by Edward Jones for future investment. Of this amount, \$100,000 was covered by SIPC insurance.

The Service Center's investments are categorized to give an indication of the level of risk assumed by the Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Service Center or the Service Center's agent in the Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Service Center's name. The Service Center's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2003, the fair value of funds on deposit with STAR Ohio was \$82,305.

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*". A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$783,454	\$0
Cash on Hand	(13,343)	0
Investments:		
STAR Ohio	(82,305)	82,305
GASB Statement No. 3	\$687,806	\$82,305

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

6. STATE FUNDING

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

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

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

7. RECEIVABLES

Receivables at June 30, 2003, consisted of accounts, intergovernmental, accrued interest, and interfund receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. Accounts receivable at June 30 was \$48.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Celina City School District	\$15,433
Coldwater Local School District	8,143
Ft. Recovery Local School District	12,313
Hancock County Educational Service Center	631
Marion Local School District	12,116
Mercer County	20,333
Parkway Local School District	10,356
St. Henry Local School District	779
West Central Juvenile Rehabilitation Center	178
West Central Ohio Special Education Regional Resource Center	17,999
Total General Fund	98,281
Special Revenue Funds	
Alternative Education	\$18,148
Preschool	45,334
Century 21	71,250
Total Special Revenue Funds	134,732
Total Intergovernmental Receivables	\$233,013

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

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2003 follows:

Asset Category	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Furniture, Fixtures, and Equipment	\$278,286	\$56,756	\$31,983	\$303,059
Vehicles	114,411	0	0	114,411
Construction in Progress	0	134,867	0	134,867
Totals	\$392,697	\$191,623	\$31,983	\$552,337

9. INTERFUND ASSETS/LIABILITIES

At June 30, 2003, the General Fund had an interfund receivable, in the amount of \$61,600, and the Alternative Educational Challenge and Preschool special revenue funds had an interfund payable, in the amount of \$18,200, and \$43,400, respectively.

10. RISK MANAGEMENT

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. During fiscal year 2003, the Service Center contracted for the following insurance coverage:

Coverage provided by Ohio Risk Sharing Authority:	
Business Personal Property (\$1,000 deductible)	\$1,011,000
Automobile Liability	1,000,000
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000
Educators Legal Liability	
Errors or Omissions	1,000,000
Stop Gap General Liability	1,000,000

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

For fiscal year 2003, the Service Center participated in the Ohio Risk Sharing Authority (ORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the ORSA for insurance coverage and pays annual premiums to the ORSA based on the types and limits of coverage and deductibles selected by the participant.

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

10. RISK MANAGEMENT (Continued)

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 School District 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.

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.

11. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001. A DBP or CP 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 DCP 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$349,187, \$251,286, and \$233,453, respectively; 79 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the CP for the fiscal year ended June 30, 2003, was \$2,531 made by plan members.

B. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$69,741, \$42,933, and \$27,834, respectively; 100 percent has been contributed for all three fiscal years.

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, 2003, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

12. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount was \$26,861.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

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

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$49,766 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

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(Continued)**

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-five days.

B. Health Care Benefits

The Service Center provides 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 monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. The Service Center provides life insurance to employees through CoreSource.

14. LONG-TERM OBLIGATIONS

The changes in the Service Center's long-term obligations during fiscal year 2003 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>
Compensated Absences Payable		\$46,201	\$2,644	\$0	\$48,845
Loan Payable - Vehicle 1	6.5%	13,231	0	3,383	9,848
Loan Payable - Vehicle 2	6.5	11,813	0	1,638	10,175
Loan Payable - Building	0	0	100,000	25,000	75,000
Total General Long-Term Obligations		<u>\$71,245</u>	<u>\$102,644</u>	<u>\$30,021</u>	<u>\$143,868</u>

Loan Payable - Vehicle 1 - During fiscal year 2002, the Service Center refinanced a loan for a van due to lower interest rates. The original loan, at an interest rate of 9.74 percent and with an outstanding balance of \$13,231, was refinanced on December 26, 2002, in the amount of \$11,748, at an interest rate of 6.5 percent. The loan was issued for a three year period, with a final maturity during fiscal year 2006.

Loan Payable - Vehicle 2 - During fiscal year 2002, the Service Center refinanced a loan for a car due to lower interest rates. The original loan, at an interest rate of 7.24 percent and with an outstanding balance of \$11,813, was refinanced on December 14, 2002, in the amount of \$11,178, at an interest rate of 6.5 percent. The loan was issued for a three year period, with a final maturity during fiscal year 2006.

Loan Payable - Building - On June 27, 2002, the Service Center entered into an interest free land installment contract with the Mercer County Commissioners to purchase a building. The contract was for \$100,000 with four equal annual installments of \$25,000.

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

14. LONG-TERM OBLIGATIONS (Continued)

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire the loans payable outstanding at June 30, 2003, were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Loans Payable</u>	<u>Interest</u>	<u>Total</u>
2004	\$31,053	\$1,151	\$32,204
2005	31,519	716	32,235
2006	32,451	86	32,537
	<u>\$95,023</u>	<u>\$1,953</u>	<u>\$96,976</u>

15. 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, Mercer, 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. During fiscal year 2003, the Service Center paid \$1,923 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, 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 Mercer County Educational Service Center. Board members serve two year terms. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the educational entities in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which educational entities, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS

The Center is governed by a fifty-two member board made up of representatives from the participating educational entities, the business community, and two institutions of higher learning. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

E. 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. During fiscal year 2003, the Service Center paid \$150 to NOERC for various services. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

16. INSURANCE POOLS

A. Ohio Risk Sharing Authority

The Service Center participates in the Ohio Risk Sharing Authority (ORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. ORSA 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 ORSA's business and affairs are conducted by 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 ORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

16. INSURANCE POOLS (Continued)

B. OASBO Workers' Compensation Group Rating Plan

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

C. Mercer Auglaize Employee Benefit Trust

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

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; Schmidt, Long, and Associates, Inc., 4159 Holland-Sylvania Road, Suite 103, Toledo, Ohio 43623.

17. CONTRACTUAL COMMITMENTS

<u>Company</u>	<u>Contract</u>	<u>Amount</u>
Heyne Construction	Elevator Renovations	\$111,901
Total Electric	Elevator Renovations	13,000
Mercer County Commissioners	Building Purchase	75,000

18. GRANTS

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2003.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

19. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The Service Center is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Title VI-B, Special Education Grants to States	048546 6BEC-2002-P	84.027	\$2,000	\$780
Title VI-B, Special Education Grants to States	048546-6BSF-2003-P		<u>439,050</u>	<u>439,050</u>
Total Title VI-B			<u>441,050</u>	<u>439,830</u>
Special Education, Preschool Grants	048546-PGS1-2002-P	84.173	38,854	43,902
Special Education, Preschool Grants	048546-PGS1-2003-P		<u>9,951</u>	<u>53,342</u>
Total Preschool Grant			<u>48,805</u>	<u>97,244</u>
Total Special Education Cluster			<u>489,855</u>	<u>537,074</u>
21st Century Community Learning Centers Grant	048546-T1S1-2003	84.287	116,250	109,733
(Passed through the Ohio Schools Facility Commission)				
Federal Emergency Repair Program/School Innovation, IDEA, and Technology Program		84.352A	<u>66,000</u>	<u>19,739</u>
Total Federal Assistance			<u><u>\$672,105</u></u>	<u><u>\$666,546</u></u>

See Accompanying Notes to the Schedule of Federal Awards Expenditures

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - COMMINGLING OF FEDERAL MONIES

Federal program monies were commingled with state and/or local monies for the Medical Assistance program. It is assumed that federal monies were expended first.

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Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the general purpose financial statements of Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated December 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 15, 2003.

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

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

Betty Montgomery
Auditor of State

December 15, 2003



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



Betty Montgomery
Auditor of State

December 15, 2003

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster (CFDA #84.027 & 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?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or No Longer <u>Valid; Explain</u>
2002-10254-001	Ohio Rev. Code 5705.41 (D)	Yes	
2002-10254-002	CFR 80.20(b) - Noncompliance/Reportable Condition – accurate preparation of final expenditure reports.	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370

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MERCER COUNTY 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
JANUARY 27, 2004**