



**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 Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Service Center, as of June 30, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General and Part B-IDEA funds, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2006, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Service Center's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

April 10, 2006

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the Mercer County Educational Service Center's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- During 2005, General Receipts accounted for \$1,305,793 or 21% of all receipts. Program specific receipts in the form of charges for services and sales, grants, and contributions accounted for \$4,784,688 or 79% of total receipts of \$6,090,481.
- During 2005, total program disbursements were \$6,120,243.
- During 2005, net assets decreased in total, \$29,762.

**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, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances. 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 is by far the most significant fund.

**Basis of Accounting**

The Service Center has elected to present its financial statements on a cash basis of accounting. This 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.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements are reported on the cash basis of accounting, which reflects receipts and disbursements when cash is received or paid.

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. Non-financial factors include the Service Center's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

**Fund Financial Statements**

The analysis of the Service Center's major funds begins on page 11. 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 include the general fund and the Part B-IDEA fund.

**Governmental Funds** - Most 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 individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The Service Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 15. 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.



**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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 2005 and 2004:

**Table 1  
Net Assets – Cash Basis**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$758,654	\$788,416
Total Assets	<u>\$758,654</u>	<u>\$788,416</u>
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$ 32	\$101,154
Other Purposes	20,481	45,805
Unrestricted	738,141	641,457
Total Net Assets	<u>\$758,654</u>	<u>\$788,416</u>

Table 2 shows the changes in net assets for fiscal years 2005 and 2004. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

**Table 2  
Change in Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Receipts</b>		
<b>Program Receipts</b>		
Charges for Services	\$3,428,426	\$3,377,679
Operating Grants	1,356,262	2,213,601
Capital Grants	0	147,599
<b>General Receipts</b>		
Grants and Entitlements	1,179,403	379,254
Interest	4,176	4,005
Miscellaneous	93,221	113,132
Other Financing Sources	28,993	0
<b>Total Receipts</b>	<u><b>6,090,481</b></u>	<u><b>6,235,270</b></u>
<b>Program Disbursements</b>		
Instruction	2,397,438	2,974,864
Support Services	2,810,587	2,492,931
Non-Instructional	0	1,632
Capital Outlay	18,594	180,645
Redemption of Principal	27,252	36,627
Debt Interest	223	748
Refund of Prior Year Receipts	0	1,220
Intergovernmental	866,149	526,762
<b>Total Disbursements</b>	<u><b>6,120,243</b></u>	<u><b>6,215,429</b></u>
<b>(Decrease) Increase in Net Assets</b>	<u><b>\$ (29,762)</b></u>	<u><b>\$ 19,841</b></u>

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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 \$4.1 million during fiscal year 2005, and \$4.1 million during 2004. School foundation receipts include contract receipts from local school districts. Additional charges for services are received directly from local school districts for services performed. General receipts from grants and entitlements are also a large receipts generator. With the combination of charges for services and intergovernmental funding at over 97% of expenses in governmental activities, the Service Center monitors both of these receipt sources very closely for fluctuations.

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 tax receipts and unrestricted State entitlements.

**Table 3  
Governmental Activities**

	<u>2005</u>		<u>2004</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
Instruction	\$ 2,397,438	\$ 258,277	\$ 2,974,864	\$ (185,981)
Support Services:				
Pupil and Instructional Staff	2,063,932	391,507	1,798,871	143,571
Board of Education,				
Administration And Fiscal	528,356	460,523	583,375	447,735
Operation and Maintenance of Plant	74,283	28,829	100,057	(10,416)
Pupil Transportation	117,223	113,433	2,525	2,120
Business	16,818	16,274	0	0
Central	9,975	9,652	8,103	8,103
Operation of Non-Instructional	0	0	1,632	(223)
Services				
Capital Outlay	18,594	17,786	180,645	33,046
Debt Service	27,475	27,475	37,375	37,375
Intergovernmental Disbursements	866,149	11,799	526,762	0
<b>Total</b>	<b><u>\$ 6,120,243</u></b>	<b><u>\$ 1,335,555</u></b>	<b><u>\$ 6,214,209</u></b>	<b><u>\$ 475,330</u></b>

During 2005, Instruction and student support services comprise 73% of governmental program disbursements. Fiscal and administration charges were 9%. Intergovernmental disbursements were 14%. Pupil transportation and the operation/maintenance of facilities account for 3% and capital outlay and debt service total 1% of governmental program disbursements.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**General Fund Budgeting Highlights**

The Service Center prepares an annual budget which is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2005, the Service Center did significantly modify its general fund budget. 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, budget basis receipts were \$4,702,137, over the original budget estimates of \$4,735,396. Of this \$33,259 decrease, most was attributable to a decrease in contract services and miscellaneous revenue.

**Debt Administration**

At June 30, 2005, the Service Center had \$30,843 outstanding long-term debt, with \$28,163 due within one year. See note 11 for additional details. Table 4 summarizes the outstanding debt.

**Table 4  
Outstanding Debt, at June 30,  
Governmental Activities**

	<u>2005</u>	<u>2004</u>
Vehicle Loan	\$ 5,843	\$ 8,095
Building Loan	25,000	50,000
<b>Total</b>	<b><u>\$ 30,843</u></b>	<b><u>\$ 58,095</u></b>

**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, 2005, 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 and internal controls are well regarded. All of the Service Center's financial abilities will be needed to meet the challenges of the future.

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

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

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EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF NET ASSETS - CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity Pooled in Cash and Cash Equivalents	<u>\$758,654</u>
Total Assets	758,654
<b>Net Assets</b>	
Restricted for:	
Capital Projects	32
Other Purposes	20,481
Unrestricted	<u>738,141</u>
Total Net Assets	<u><u>\$758,654</u></u>

*See accompanying notes to the financial statements.*

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Program Cash Receipts</u>		<b>Net (Disbursements) Receipts and Changes in Net Assets</b>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	
<b>Governmental Activities:</b>			
Instruction			
Regular	\$607,365	\$176,938	\$253,123
Special	1,766,512	1,691,363	16,613
Other	23,561	1,124	
<b>Support Services</b>			
Pupil	1,748,427	1,225,570	107,681
Instructional Staff	315,505	317,842	21,332
Board of Education	92,583	2,993	
Administration	349,337	225	61,002
Fiscal	86,436	2,756	857
Business	16,818	544	
Operation and Maintenance of Plant	74,283	8,748	36,706
Pupil Transportation	117,223		3,790
Central	9,975	323	
Capital Outlay			
Facilities Acquisition and Construction	18,594		808
Redemption of Principal	27,252		
Debt Interest	223		
Intergovernmental Expenditures	866,149		854,350
<b>Total Governmental Activities</b>	<u><u>\$6,120,243</u></u>	<u><u>\$3,428,426</u></u>	<u><u>\$1,356,262</u></u>
			<u><u>(1,335,555)</u></u>

**General Receipts**

Grants and Entitlements not Restricted to Specific Programs	1,179,403
Interest	4,176
Miscellaneous	93,221
Other Financing Sources	28,993
	<u>1,305,793</u>
Total General Receipts	<u>1,305,793</u>
Change in Net Assets	(29,762)
Net Assets Beginning of Year	<u>788,416</u>
Net Assets End of Year	<u><u>\$758,654</u></u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity Pooled in Cash and Cash Equivalents	\$738,141	\$0	\$20,513	\$758,654
Total Assets	<u>738,141</u>	<u></u>	<u>20,513</u>	<u>758,654</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	9,948		28,375	38,323
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	728,193			728,193
Special Revenue Funds			(7,894)	(7,894)
Capital Projects Funds			32	32
Total Fund Balances	<u>\$738,141</u>	<u>\$0</u>	<u>\$20,513</u>	<u>\$758,654</u>

*See accompanying notes to the financial statements.*

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>General Fund</b>	<b>Part B - IDEA Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Receipts</b>				
Intergovernmental	\$1,193,737	\$796,900	\$553,569	\$2,544,206
Contract Services	3,236,248			3,236,248
Interest	4,176			4,176
Tuition and Fees	158,323		8,882	167,205
Miscellaneous	109,653			109,653
<b>Total Receipts</b>	<b>4,702,137</b>	<b>796,900</b>	<b>562,451</b>	<b>6,061,488</b>
<b>Disbursements</b>				
Current:				
Instruction				
Regular	201,709		405,656	607,365
Special	1,751,514		14,998	1,766,512
Other	22,073			22,073
Support Services				
Pupil	1,612,440		135,987	1,748,427
Instructional Staff	290,507		24,998	315,505
Board of Education	92,583			92,583
Administration	279,798		69,539	349,337
Fiscal	85,236		1,200	86,436
Business	16,818			16,818
Operation and Maintenance of Plant	32,186		42,097	74,283
Pupil Transportation	117,223			117,223
Central	9,975			9,975
Capital Outlay				
Facilities Acquisition and Construction			18,594	18,594
Redemption of Principal	27,252			27,252
Debt Interest	223			223
Intergovernmental Expenditures		796,900	69,249	866,149
<b>Total Disbursements</b>	<b>4,539,537</b>	<b>796,900</b>	<b>782,318</b>	<b>6,118,755</b>
<b>Excess of Receipts Over (Under) Disbursements</b>	<b>162,600</b>		<b>(219,867)</b>	<b>(57,267)</b>
<b>Other Financing Sources (Uses)</b>				
Advances-In	12,900		61,400	74,300
Advances-Out	(62,000)		(12,300)	(74,300)
Other Financing Sources	28,709		284	28,993
Other Financing Uses	(400)		(1,088)	(1,488)
<b>Total Other Financing Sources (Uses)</b>	<b>(20,791)</b>		<b>48,296</b>	<b>27,505</b>
<b>Net Change in Fund Balances</b>	<b>141,809</b>		<b>(171,571)</b>	<b>(29,762)</b>
Fund Balances Beginning	596,332		192,084	788,416
Fund Balances End of Year	<b>\$738,141</b>	<b>\$0</b>	<b>\$20,513</b>	<b>\$758,654</b>

See accompanying notes to the financial statements.



**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Over (Under)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Intergovernmental	\$1,198,490	\$1,198,490	\$1,193,737	(\$4,753)
Contract Services	3,252,510	3,252,510	3,236,248	(16,262)
Interest	4,500	4,000	4,176	176
Tuition and Fees	152,000	152,000	158,323	6,323
Miscellaneous	127,896	127,896	109,653	(18,243)
<b>Total Receipts</b>	<u>4,735,396</u>	<u>4,734,896</u>	<u>4,702,137</u>	<u>(32,759)</u>
<b>Disbursements</b>				
Current:				
Instruction				
Regular	268,480	268,480	201,709	66,771
Special	1,789,981	1,784,581	1,751,514	33,067
Other	7,950	7,950	23,367	(15,417)
Support Services				
Pupil	1,612,638	1,641,638	1,612,620	29,018
Instructional Staff	370,203	342,203	291,634	50,569
Board of Education	87,800	91,300	92,635	(1,335)
Administration	282,670	288,570	285,545	3,025
Fiscal	88,250	89,250	85,687	3,563
Business	19,000	22,000	16,920	5,080
Operation and Maintenance of Plant	29,900	34,900	33,181	1,719
Pupil Transportation	50,000	50,000	117,223	(67,223)
Central	8,500	10,500	9,975	525
Redemption of Principal	25,000	25,000	27,252	(2,252)
Debt Interest			223	(223)
<b>Total Disbursements</b>	<u>4,640,372</u>	<u>4,656,372</u>	<u>4,549,485</u>	<u>106,887</u>
Excess of Receipts Over (Under) Disbursements	<u>95,024</u>	<u>78,524</u>	<u>152,652</u>	<u>74,128</u>
<b>Other Financing Sources (Uses)</b>				
Advances-In			12,900	12,900
Other Financing Sources	20,000	20,000	28,709	8,709
Advances-Out	(35,450)	(39,450)	(62,400)	(22,950)
<b>Total Other Financing Sources (Uses)</b>	<u>(15,450)</u>	<u>(19,450)</u>	<u>(20,791)</u>	<u>(1,341)</u>
<b>Net Change in Fund Balances</b>	79,574	59,074	131,861	72,787
Fund Balances Beginning	584,941	584,941	584,941	
Prior Year Encumbrances Appropriated	11,391	11,391	11,391	
<b>Fund Balances End of Year</b>	<u>\$675,906</u>	<u>\$655,406</u>	<u>\$728,193</u>	<u>\$72,787</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
PART B - IDEA FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Intergovernmental	\$796,900	\$796,900	\$796,900	\$0
Total Receipts	796,900	796,900	796,900	
<b>Disbursements</b>				
Current:				
Instruction				
Special	462,095	462,095	462,095	
Support Services				
Pupil	334,805	334,805	334,805	
Total Disbursements	796,900	796,900	796,900	
Excess of Receipts Over (Under) Disbursements				
Net Change in Fund Balances				
Fund Balances Beginning				
Fund Balances End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

*See accompanying notes to the financial statements.*

EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Agency</u>
<b>Assets</b>	
Equity Pooled in Cash and Cash Equivalents	<u>\$13,367</u>
Total Assets	<u><u>13,367</u></u>
<b>Net Assets</b>	
Held for Other Governments	<u>13,367</u>
Total Net Assets	<u><u>\$13,367</u></u>

*See accompanying notes to the financial statements.*

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**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**1. DESCRIPTION OF MERCER COUNTY EDUCATIONAL SERVICE CENTER AND THE 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 education (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, the Mercer County Local Professional Development Committee, the West Central Ohio Special Education Regional Resource Center, the Northwestern Ohio Educational Research Council, the Schools of Ohio Risk Sharing Authority, the OASBO Workers' Compensation Group Rating Plan, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 12 and 13 to the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(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.

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 beginning and 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 disbursements and program receipts for each program or function of the Service Center's governmental activities. 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 disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

**2. Fund Financial Statements**

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

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within these categories. The Service Center has only governmental funds. 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 most governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2005:

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

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

**4. Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds include local professional development committee, Family and Children's First program funding, and employee paid portion of insurance (Section 125 Plan).

**C. Budgetary Process**

The Educational Service Center's Board annually adopts an appropriation resolution. The appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are budgeted and appropriated, except for the Agency Fund for the Section 125 Plan.

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

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**1. Appropriations:**

The annual appropriation resolution is enacted by the Governing Board of the Service Center 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 statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

**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 non-GAAP 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 Pooled in Cash and Cash Equivalents."

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

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited during fiscal year 2005 were \$4,176 credited to the General Fund.



**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**E. 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.

**F. 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.

**G. 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.

**H. 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 receipt when the grant is received.

**I. 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.

**J. 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 special revenue funds. For fiscal year 2005, these funds included the Special Education Grants to States (Part B-IDEA) & Special Education Preschool Grant.

**K. Interfund Receivables/Payables**

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 operating 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 advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At June 30, 2005, the General Fund had unpaid interfund cash advances, in the amount of \$61,800 for short-term loans made to the MECA Grant, School Psychologist Intern, Elevator Construction, Preschool Grant, and 21<sup>st</sup> Century Grant Funds. These are expected to be repaid within one year.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

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

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**M. 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.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

**2. Fund Financial Statements**

Governmental fund equity is classified as fund balance. The Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

**N. 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 service, operating grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipt even if restricted for a specific purpose.

**3. CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2005, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “Deposit and Investment Risk Disclosure”. GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the Service Center’s financial statements.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**4. COMPLIANCE**

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

**5. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**Cash on Hand:** At fiscal year end, the Service Center had \$75 in un-deposited cash on hand which is included in the end of year fund cash balances.

**A. Deposits**

At June 30, 2005, the carrying amount of the Service Center's deposits was \$687,097 and the bank balance was \$1,043,685. Of the bank balance, \$100,000 was covered by federal depository insurance and \$925,152 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.

**B. Investments**

Investments are reported at fair value. As of June 30, 2005, the Service Center's only investment included \$84,849 in STAR Ohio. The Service Center's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**1. Interest Rate Risk**

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

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

**2. Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The Service Center has no investment policy dealing with investment credit risk beyond the requirements of State statute. STAR Ohio has been rated as AAAM by Standard & Poor.

**3. Concentration Risk**

The Service Center places no limit on the amount they may invest in any one issuer. More than 5 percent of the Service Center's investments are in STAR Ohio. These investments include 100% of the Service Center's total investments for fiscal year 2005.

**6. PRIMARY RECEIPT SOURCES**

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

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

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$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. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as contract services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**6. 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.

**7. RISK MANAGEMENT**

**A. Property and Liability**

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Service Center contracted for the following insurance coverage through the Schools of Ohio Risk Sharing Authority:

Business Personal Property (\$1,000 deductible)	\$1,031,000
Automobile Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate limit	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 fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2005, 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.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

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

**C. Medical Benefits**

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

**8. PENSION PLANS**

**A. State Teachers Retirement System**

The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**8. PENSION PLANS (Continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations for the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, was \$359,580, \$379,043, and \$349,187, respectively. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$16 made by the Service Center and \$6,958 made by plan members.

**B. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$106,783, \$88,944 and \$69,741.

**9. 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 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 premiums. Benefit provisions and the obligations 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.



**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$27,660 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, Service Center paid \$49,653 to fund health care benefits, including the surcharge.

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. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants eligible to receive health care benefits.

**10. OTHER EMPLOYEE BENEFITS**

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

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**11. DEBT OBLIGATIONS**

The changes in the Service Center's debt obligations during fiscal year 2005 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Loan - Vehicle	6.5%	\$ 8,095	\$ 0	\$ 2,252	\$ 5,843
Loan – Building	0	50,000	0	25,000	25,000
Total Debt Obligations		<u>\$ 58,095</u>	<u>\$ 0</u>	<u>\$ 27,252</u>	<u>\$ 30,843</u>

**Loan Payable - Vehicle** - During fiscal year 2002, the Service Center refinanced the loan for a vehicle 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. On August 15, 2005 the term of the loan was increased by 20 months, moving the maturity date to March 13, 2007.

**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.

Principal and interest requirements to retire the loans payable outstanding at June 30, 2005, were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Loans Payable</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 28,163	\$ 287	\$ 28,450
2007	2,680	77	2,757
	<u>\$ 30,843</u>	<u>\$ 364</u>	<u>\$ 31,207</u>

**12. JOINTLY GOVERNED ORGANIZATIONS**

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

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

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

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

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS**

**C. 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.

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

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

The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**13. INSURANCE PURCHASING POOLS**

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

The Service Center participates in the School 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 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.

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**13. INSURANCE PURCHASING POOLS**

**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, JM Consulting, 3547 Beechway Blvd., Toledo, Ohio 43614.

**14. CONTINGENCIES**

**A. 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, 2005.

**B. 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 on its future State funding and its financial operations.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/ Pass-Through Grantor/ Program Titles</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<b>U.S. Department of Education</b>				
(Passed through the Ohio Department of Education)				
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	84.027	048546-6BSF-2005	\$796,898	\$796,898
Total Special Education - Grants to States			<u>796,898</u>	<u>796,898</u>
Special Education - Preschool Grants (IDEA Preschool)	84.173	048546-PGS1-2005	57,452	67,747
Special Education - Preschool Grants (IDEA Preschool)	84.173	048546-PGS1-2004		1,502
Total Special Education - Preschool Grants			<u>57,452</u>	<u>69,249</u>
Total Special Education Cluster			854,350	866,147
Safe and Drug-Free Schools and Communities - National	84.184C	048546-T4S1-2004P	9,033	1,401
Safe and Drug-Free Schools and Communities - National	84.184C	048546-T4S1-2004	4,707	4,804
Total Safe and Drug-Free Schools and Communities			<u>13,740</u>	<u>6,205</u>
21st Century Community Learning Centers Grant	84.287	048546-T1S1-2005	298,693	340,329
21st Century Community Learning Centers Grant	84.287	048546-T1S1-2004		68,131
Total 21st Century Community Learning Centers Grant			<u>298,693</u>	<u>408,460</u>
(Passed through the Ohio School Facility Commission)				
Federal Emergency Repair Program/School Innovation, IDEA and Technology Program	84.352A			<u>18,594</u>
<b>Total Federal Financial Assistance</b>			<u><u>\$1,166,783</u></u>	<u><u>\$1,299,406</u></u>

See accompanying Notes to the Schedule of Federal Awards

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (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 - MATCHING REQUIREMENTS**

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

**NOTE C - ADMINISTRATIVE AGENT**

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



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center (the Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated April 10, 2006 wherein we noted that the Service Center reports on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is required. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Service Center's management dated April 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Service Center's management dated April 10, 2006, we also reported a matter related to noncompliance we deemed immaterial.

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Educational Service Center  
Mercer County  
Independent Accounts' Report on Compliance and on Internal Control  
Required by Government Auditing Standards  
Page 2

We intend this report solely for the information and use of management, the Governing Board, federal awarding agencies, and pass-through entities. It is not intended for 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

April 10, 2006





## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 Governing Board:

#### Compliance

We have audited the compliance of the Educational Service Center, Mercer County, (the Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

#### Internal Control Over Compliance

The Service Center's management 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 directly and materially affect a major federal program 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.

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**Internal Control Over Compliance  
(Continued)**

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Service Center's management in a separate letter dated April 10, 2006.

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



**Betty Montgomery**  
Auditor of State

April 10, 2006

**EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

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

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

**FINDING NUMBER 2005-001**

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

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

The Service Center should prepare their financial statements in accordance with GAAP.

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

None

EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2004-001	ORC Sec. 117.38 & OAC Sec. 117-2-03 (B) – The ESC filed cash basis financial statements.	No	Not Corrected
2004-002	ORC Sec. 5705.41(D) – ESC failed to issue certification of available funds prior to expenditures	No	Finding no longer valid





**Auditor of State  
Betty Montgomery**

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**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  
JUNE 01, 2006**