



Dave Yost • Auditor of State



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County Educational Service Center, Mercer County, Ohio (the Service Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2A describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County Educational Service Center, Mercer County, Ohio, as of June 30, 2013, thereof for the year then ended in accordance with the accounting basis described in Note 2A.

***Accounting Basis***

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. We draw attention to Note 2A of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Emphasis of Matter***

As described in Note 3, the Service Center restated its fund balances for Other Governmental, Private Purpose Trust and Agency Funds, and Net Position of the Governmental Activities, Agency and Private Purpose Trust funds as of July 1, 2012.

***Other Matters***

*Supplemental and Other Information*

We audited to opine on the Service Center's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* includes tables of net position, changes in net position, and governmental activities. The Schedule of Receipts, Disbursements, and Change in Cash Basis Fund Balance Budget and Actual (Budget Basis) General Fund (the Budgetary Schedule) is supplementary information. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Disbursements (Schedule) also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and Schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and Schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and Schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and Schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

November 13, 2013

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The discussion and analysis of the Mercer County Educational Service Center's ("Service Center") financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2013. 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 fiscal year 2013 are as follows:

- General receipts accounted for \$1,291,178 or 24 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants, contributions and interest accounted for \$4,084,528 or 76 percent of total receipts of \$5,375,706.
- In total, program disbursements were \$5,719,438.
- In total, net position decreased \$343,732.

**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 Position* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2013, the General Fund and Part B – IDEA Fund are the Service Center's most significant funds.

**Basis of Accounting**

The Service Center has elected to present its financial statements on the 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 position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

**Reporting the Service Center as a Whole**

*Statement of Net Position 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 2013?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the Service Center's programs and services, including instruction and support services.

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

*Fund Financial Statements*

The analysis of the Service Center's major funds begins on page 9. 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** - All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

**The Service Center as a Whole**

Table 1 provides a summary of the Service Center's net position for fiscal year 2013 compared to 2012.

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

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012 - Restated</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,785,906	\$2,129,638
Total Assets	<u>1,785,906</u>	<u>2,129,638</u>
<b>Net Position:</b>		
<b>Restricted for:</b>		
Other Purposes	164,435	173,636
Unrestricted	<u>1,621,471</u>	<u>1,956,002</u>
Total Net Position	<u>\$1,785,906</u>	<u>\$2,129,638</u>

The net position of the governmental activities decreased \$343,732 which represents a 16 percent decrease from fiscal year 2012. This is due to decreased receipts from services and operating grants.

Fiscal year 2012 was restated to include Help Me Grow Fund in the government activities for more accurate comparisons.

A portion of the Service Center's net position, \$164,435, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$1,621,471 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net position for fiscal year 2013 as compared to fiscal year 2012.

**(Table 2)**  
**Changes in Net Position – Cash Basis**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012 – Restated</b>
<b>Receipts;</b>		
<b>Program Receipts;</b>		
Charges for Services and Sales	\$3,048,829	\$3,313,215
Operating Grants, Contributions and Interest	<u>1,035,699</u>	<u>1,147,802</u>
Total Program Receipts	<u>4,084,528</u>	<u>4,461,017</u>
<b>General Receipts:</b>		
Grants and Entitlements not Restricted to Specific Programs	1,282,031	1,093,713
Investment Earnings	4,164	7,539
Miscellaneous	<u>4,983</u>	<u>7,906</u>
Total General Receipts	<u>1,291,178</u>	<u>1,109,158</u>
Total Receipts	<u>5,375,706</u>	<u>5,570,175</u>

(Continued)

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

**(Table 2)  
Changes in Net Position – Cash Basis  
(Continued)**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012 – Restated</b>
<b>Program Disbursements:</b>		
<b>Instructions:</b>		
Regular	136,010	181,425
Special	3,364,605	3,152,163
<b>Support Services:</b>		
Pupils	1,139,945	1,056,490
Instructional Staff	289,822	317,431
Board of Education	56,708	71,205
Administration	299,580	297,387
Fiscal	104,009	102,218
Business	8,673	8,365
Operation and Maintenance of Plant	179,212	58,585
Pupil Transportation	64,039	114,482
Central	74,803	118,426
Extracurricular Activities	25	
Debt Service	2,007	3,439
<b>Total Program Disbursements</b>	<b>5,719,438</b>	<b>5,481,616</b>
Change in Net Position	(343,732)	88,559
Net Position Beginning of Year	2,129,638	2,041,079
Net Position End of Year	<b>\$1,785,906</b>	<b>\$2,129,638</b>

Operation and Maintenance of Plant disbursements for fiscal year 2013 were \$179,212 which is a \$120,627 increase over fiscal year 2012. This is attributed to a window replacement project in 2013.

Fiscal year 2012 was restated to include Help Me Grow Fund in the government activities for more accurate comparisons.

**Governmental Activities**

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 revenue and unrestricted State entitlements.

**(Table 3)  
Governmental Activities – Cash Basis**

	<b>Total Costs of Services</b>		<b>Net Costs of Services</b>	
	<b>2013</b>	<b>2012 - Restated</b>	<b>2013</b>	<b>2012 - Restated</b>
<b>Program Disbursements:</b>				
<b>Instructions:</b>				
Regular	\$ 136,010	\$1 81,425	(\$ 8,734)	(\$ 51,346)
Special	3,364,605	3,152,163	356,188	250,149

(Continued)

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

**(Table 3)  
Governmental Activities – Cash Basis  
(Continued)**

	<b>Total Costs of Services</b>		<b>Net Costs of Services</b>	
	<b>2013</b>	<b>2012 - Restated</b>	<b>2013</b>	<b>2012 - Restated</b>
<b>Support Services:</b>				
Pupils	1,139,945	1,056,490	569,892	283,723
Instructional Staff	289,822	317,431	132,948	77,473
Board of Education	56,708	71,205	56,708	71,205
Administration	299,580	297,387	137,423	79,286
Fiscal	104,009	102,218	104,009	102,218
Business	8,673	8,365	8,673	8,365
Operation and Maintenance of Plant	179,212	58,585	179,212	58,585
Pupil Transportation	64,039	114,482	64,039	114,482
Central	74,803	118,426	32,520	23,020
Extracurricular Activities	25		25	
Debt Service	2,007	3,439	2,007	3,439
<b>Total</b>	<b>\$5,719,458</b>	<b>\$5,481,616</b>	<b>\$1,634,910</b>	<b>\$1,020,599</b>

Fiscal year 2012 was restated to include Help Me Grow Fund for more accurate comparisons.

**The Service Center's Funds**

The Service Center's governmental funds are accounted for using the cash basis of accounting.

The Service Center's governmental funds reported a combined fund balance of \$1,785,906, which is lower than the prior year balance of \$2,129,638.

The general fund had total cash receipts, including other financing sources, of \$4,357,338. The cash disbursements, including other financing uses, of the general fund totaled \$4,691,869. The general fund's fund balance decreased \$334,531 in fiscal year 2013. The decrease in fund balance can be attributed to a reduction in contracted services and tuition and fees.

The Part B – IDEA Fund had total cash receipts of \$734,197 and total cash disbursements of \$734,197.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2013, the Service Center did not significantly modify its general fund appropriations. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual disbursements on the budget basis (cash outlays plus encumbrances) for fiscal year 2013 were \$4.7 million, approximately \$430,000 more than what was budgeted during the year.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

***Debt***

During fiscal year 2013, the Service Center's only debt was a vehicle lease. See note 10 for additional details.

***Current Issues***

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

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

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

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

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

MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2013

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,785,906
Total Assets	<u>1,785,906</u>
<b>Net PositionL</b>	
<b>Restricted for:</b>	
Other Purposes	164,435
Unrestricted	1,621,471
Total Net Position	<u>\$1,785,906</u>

*See accompanying notes to the financial statements.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Program Cash Receipts</b>		<b>Net (Disbursements) Receipts and Changes in Net Position</b>
<b>Cash Disbursements</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants, Contributions and Interest</b>	<b>Governmental Activities</b>
<b>Governmental Activities:</b>			
<b>Instruction:</b>			
Regular	\$136,010		\$8,734
Special	3,364,605	\$2,159,745	(356,188)
<b>Support Services:</b>			
Pupils	1,139,945	570,053	(569,892)
Instructional Staff	289,822	156,874	(132,948)
Board of Education	56,708		(56,708)
Administration	299,580	162,157	(137,423)
Fiscal	104,009		(104,009)
Business	8,673		(8,673)
Operation and Maintenance of Plant	179,212		(179,212)
Pupil Transportation	64,039		(64,039)
Central	74,803		(32,520)
Extracurricular Activities	25	42,283	(25)
Debt Service	2,007		(2,007)
<b>Totals</b>	<b>\$5,719,438</b>	<b>\$3,048,829</b>	<b>\$1,035,699</b>
<b>General Receipts:</b>			
Grants and Entitlements not Restricted to Specific Programs			1,282,031
Investment Earnings			4,164
Miscellaneous			4,983
<b>Total General Receipts</b>			<b>1,291,178</b>
Change in Net Position			(343,732)
Net Position Beginning of Year - Restated (See Note 3)			2,129,638
Net Position End of Year			<b>\$1,785,906</b>

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,621,471		\$164,435	\$1,785,906
Total Assets	<u>1,621,471</u>		<u>164,435</u>	<u>1,785,906</u>
<b>Fund Balances:</b>				
Non-spendable	31,493			31,493
Restricted			164,435	164,435
Committed	118,928			118,928
Assigned	634			634
Unassigned	1,470,416			1,470,416
Total Fund Balances	<u>\$1,621,471</u>	<u>\$0</u>	<u>\$164,435</u>	<u>\$1,785,906</u>

*See accompanying notes to the financial statements.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Part B - IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts:</b>				
Intergovernmental	\$1,282,363	\$734,197	\$301,171	\$2,317,731
Investment Income	4,164			4,164
Contracted Services	2,977,405			2,977,405
Tuition and Fees	63,220			63,220
Extracurricular Activities	8,203			8,203
Miscellaneous	4,983			4,983
Total Receipts	<u>4,340,338</u>	<u>734,197</u>	<u>301,171</u>	<u>5,375,706</u>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	43,465		92,545	136,010
Special	2,573,917		5,616	2,579,533
<b>Support Services:</b>				
Pupils	1,020,490		119,455	1,139,945
Instructional Staff	289,822			289,822
Board of Education	56,708			56,708
Administration	294,292		5,288	299,580
Fiscal	104,009			104,009
Business	8,673			8,673
Operation and Maintenance of Plant	179,212			179,212
Pupil Transportation	64,039			64,039
Central	24,540		50,263	74,803
Extracurricular	25			25
Intergovernmental		734,197	50,875	785,072
<b>Debt Service:</b>				
Principal Retirement	2,007			2,007
Total Disbursements	<u>4,661,199</u>	<u>734,197</u>	<u>324,042</u>	<u>5,719,438</u>
Excess of Receipts Over (Under) Disbursements	<u>(320,861)</u>		<u>(22,871)</u>	<u>(343,732)</u>
<b>Other Financing Sources (Uses):</b>				
Advances In	17,000		30,670	47,670
Advances Out	(30,670)		(17,000)	(47,670)
Total Other Financing Sources (Uses)	<u>(13,670)</u>		<u>13,670</u>	
Net Change in Fund Balances	(334,531)		(9,201)	(343,732)
Fund Balances Beginning of Year - Restated (See Note 3)	<u>1,956,002</u>		<u>173,636</u>	<u>2,129,638</u>
Fund Balances End of Year	<u>\$1,621,471</u>	<u>\$0</u>	<u>\$164,435</u>	<u>\$1,785,906</u>

See accompanying notes to the financial statements.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2013**

	<b>Private Purpose Trust</b>	
	<b>Franklin Walter Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,948	\$24,281
<b>Net Position:</b>		
Held on Behalf of Other Governments		\$24,281
Held in Trust for Scholarships	\$1,948	

*See accompanying notes to the financial statements.*

MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2013

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Gifts/Donations	\$1,774
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	<u>1,462</u>
<b>Change in Net Position</b>	312
Net Position Beginning of Year - <i>Restated</i> (See Note 3)	<u>1,636</u>
Net Position End of Year	<u><u>\$1,948</u></u>

*See accompanying notes and accountant's compilation report.*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

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

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Service Center's accounting policies.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**A. Basis of Accounting**

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

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

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

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

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

**1. Government-Wide Financial Statements**

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**2. Fund Financial Statements**

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

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

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

The funds of the financial reporting entity are described below:

**3. Governmental Funds/Governmental Activities**

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2013:

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

**Part B – IDEA Fund** - The Part B – Idea Fund special revenue fund is used to account for the special education services and resources of the Service Center.

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

**4. Fiduciary Fund Types**

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**C. Budgetary Process**

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

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

**1. Appropriations:**

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

The budget figures which appear in the schedule of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund.

**2. Encumbrances:**

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

**3. Lapsing of Appropriations**

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

**D. Cash and Cash Equivalents**

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

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

Following Ohio statutes, the Board of Governors has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2013 were \$4,164, which includes \$383 assigned from other funds.

**E. Restricted Assets**

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

**F. Capital Assets**

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

**G. Accumulated Leave**

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

**H. Long-term Debt**

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

**I. Intergovernmental Receipts**

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

**J. Inventory and Prepaid Items**

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

**K. Pass-Through Grants**

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the Family and Children First Council or school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2013, these funds included the Special Education Grants to States (Part B-IDEA), Special Education Preschool Grant and Help Me Grow Grant. The intergovernmental disbursements have been allocated to the programs on the entity-wide statement of activities.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**L. Interfund Transactions**

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

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

The Service Center reports advance-in and advance-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. See Note 14 for further details on fiscal year 2013 interfund transactions.

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

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

**N. Equity Classifications**

**1. Government-Wide Statements**

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

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

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

**2. Fund Financial Statements**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

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

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

**O. Receipts and Disbursements**

**1. Program Receipts**

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

**2. Disbursements**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

**P. Implementation of New Accounting Policies**

For the fiscal year ended June 30, 2013, the Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

**3. RESTATEMENT OF FUND BALANCE/NET POSITION**

For fiscal year 2013, the Service Center modified its financial statements to reflect the reclassification of Help Me Grow funds from agency to special revenue type. Help Me Grow is no longer part of the Family and Children First Council. For fiscal year 2013, the Franklin Walter Scholarship fund was also reclassified from Agency to Private Purpose Trust.

The restatement had the following effect on the fund balances as of July 1, 2012:

	<u>All Other Governmental Funds</u>	<u>Private Purpose Trust</u>	<u>Agency</u>
Fund Balance at July 1, 2012	\$ 238		\$214,251
Change in Fund Structure	173,398	\$1,636	(175,034)
Adjusted Fund Balance at July 1, 2012	\$173,636	\$1,636	\$ 39,217

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**3. RESTATEMENT OF FUND BALANCE/NET POSITION (Continued)**

The restatement had the following effect on governmental activities, private purpose trust and agency fund net position as of July 1, 2012:

	<b>Governmental Activities</b>	<b>Private Purpose Trust</b>	<b>Agency</b>	<b>Total</b>
Net Position July 1, 2012	\$1,956,240		\$214,251	\$2,170,491
Change in Fund Structure	173,398	\$1,636	(175,034)	
Adjusted Net Position at July 1, 2012	<u>\$2,129,638</u>	<u>\$1,636</u>	<u>\$ 39,217</u>	<u>\$2,170,491</u>

**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

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

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

**Deposits**

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

At June 30, 2013, the carrying amount of the Service Center's deposits was \$1,812,010 and the bank balance was \$2,008,037. Of the bank balance, \$1,748,843 was covered by federal depository insurance and \$259,194 was uninsured and uncollateralized with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**5. PRIMARY RECEIPT SOURCES**

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

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

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

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

**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 contracted 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 contracted services.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**6. RISK MANAGEMENT**

**A. Property and Liability**

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2013, the Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2013, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property	
Building and Business (No deductible)	\$1,886,518
Earth Movement Limit (\$50,000 deductible)	2,000,000
Flood Limit (\$50,000 deductible)	2,000,000
Equipment Breakdown (No deductible)	50,000,000
CFC Refrigerants (No deductible)	250,000
Hazardous Substance Contamination (No deductible)	250,000
Spoilage (No deductible)	250,000
Expediting Expenses (No deductible)	250,000
Crime Coverage	
Employee Dishonesty (No deductible)	100,000
Forgery or Alteration (No deductible)	100,000
Computer Fraud (No deductible)	100,000
Theft, Disappearance and Destruction (No deductible)	100,000
General Liability	
Bodily Injury and Property Damage (No deductible)	12,000,000
Personal Injury/Advertising Liability (No deductible)	12,000,000
Products/Completed Operations (No deductible)	12,000,000
Employers Stop Gap Liability	
Bodily Injury by Accident (Per Accident) (No deductible)	12,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	12,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	12,000,000
Aggregate Limit (No deductible)	12,000,000
General Annual Aggregate	14,000,000
Fire Legal Liability	500,000
Medical Payments (Occurrence/Aggregate) (No deductible)	5,000/25,000
Educators Legal Liability	
Wrongful Acts Coverage Per Occurrence (No deductible)	12,000,000
Wrongful Acts Coverage Aggregate	12,000,000
Automobile Liability and Physical Damage	
Bodily Injury & Property Damage (Per Occurrence) (No deductible)	12,000,000
Medical Payments (Occurrence/Aggregate) (No deductible)	5,000/25,000
Automobile Physical Damage (No deductible)	ACV
Garagekeepers Physical Damage (No deductible)	ACV (Maximum \$250,000)

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

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

**C. Medical Benefits**

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

**7. PENSION PLANS**

**A. School Employees Retirement System**

**Plan Description** - The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

**Funding Policy** - 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 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$128,898, \$71,652 and \$107,360, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**7. PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

**Plan Description** - The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

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

**Funding Policy** - For fiscal year 2013, 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 recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$331,718, \$380,267 and \$334,340, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$10,068 made by the School Service Center and \$7,191 made by the plan members.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**7. PENSION PLANS (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2013, four members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**8. POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Plan Description** - The Service Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "Employers/Audit Resources".

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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

The Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,574, \$3,399 and \$13,000, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$7,281, \$4,248 and \$6,909, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**B. State Teachers Retirement System**

**Plan Description** - The Service Center contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (888) 227-7877.

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$25,517, \$29,251, and \$25,718, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

**9. OTHER EMPLOYEE BENEFITS**

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

**10. DEBT OBLIGATIONS**

The changes in the Service Center's debt obligations during fiscal year 2013 were as follows:

	<b>Interest Rate</b>	<b>Balance at 6/30/12</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/13</b>
2010 Lease -Vehicle	2.25%	\$2,007	\$0	\$2,007	\$0

**Lease Payable - Vehicle** - On February 26, 2010, the Service Center entered into a lease agreement for a 2010 Chevrolet Malibu. The overall principal of the lease was in the amount of \$10,318, at an interest rate of 2.25 percent. The lease was issued for a three year period, with monthly payments of \$287, including principal and interest. The lease was paid in full during fiscal year 2013.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS**

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

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

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

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

**C. State Support Team Region 6**

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**12. INSURANCE PURCHASING POOLS**

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

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

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

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

**C. Mercer Auglaize Employee Benefit Trust**

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

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

**13. FUND BALANCE**

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**13. FUND BALANCE (Continued)**

<u>Fund Balance</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Non-spendable:</b>			
Unclaimed Monies	\$ 31,493		\$ 31,493
<b>Restricted for:</b>			
Educational Activities		\$164,435	164,435
Committed to:			
Educational Activities	58,928		59,928
Future Severance Payments	60,000		60,000
<b>Total Committed</b>	<u>118,928</u>		<u>118,928</u>
<b>Assigned for:</b>			
Support Services	634		634
Unassigned	1,470,416		1,470,416
<b>Total Fund Balance</b>	<u>\$1,621,471</u>	<u>\$164,435</u>	<u>\$1,785,906</u>

**14. INTERFUND ACTIVITY**

During fiscal year 2013, the Service Center had the following interfund activity:

	<u>Advances In</u>	<u>Advances Out</u>
<b>Governmental:</b>		
General Fund	\$17,000	\$30,670
<b>Other Governmental Funds:</b>		
Parent Mentor Grant	650	5,300
2012 Title III Grant		6,300
21 <sup>st</sup> Century Grant		5,400
2013 Summer TANF/WIA Program	5,620	
MECA Part-C Grant	3,350	
2013 Title III Grant	21,050	
<b>Totals</b>	<u>\$47,670</u>	<u>\$47,670</u>

Short term loans or advances were made during fiscal year 2013 from the General Fund to cover expenditures made by separate funds awaiting reimbursement by granting authorities. Advances made by Other Governmental funds to the General Fund were repayment of outstanding loans from prior year. During fiscal year 2013, the Service Center had no transfers between separate funds.

**15. CONTINGENCIES**

**A. Grants**

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2013, if applicable, cannot be determined at this time.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**15. CONTINGENCIES (Continued)**

**B. Litigation**

The Service Center is not party to any claims or lawsuits that would, in the Service Center's opinion, have a material effect of the basic financial statements.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN CASH BASIS FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts:</b>				
Intergovernmental			\$1,282,363	
Investment Income			4,164	
Contracted Services			2,977,405	
Tuition and Fees			63,220	
Extracurricular Activities			8,203	
Miscellaneous			4,983	
Total Receipts			<u>4,340,338</u>	
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	\$516	\$3,016	43,465	(\$40,449)
Special	2,443,731	2,514,388	2,573,917	(59,529)
<b>Support Services:</b>				
Pupils	725,595	760,050	1,020,490	(260,440)
Instructional Staff	110,406	143,996	290,122	(146,126)
Board of Education	68,359	71,768	56,708	15,060
Administration	292,314	295,875	294,926	949
Fiscal	103,675	105,050	104,009	1,041
Business	8,336	8,686	8,673	13
Operation and Maintenance of Plant	205,521	212,051	181,219	30,832
Pupil Transportation	117,921	117,921	64,039	53,882
Central	1,560	1,560	24,540	(22,980)
Total Disbursements	<u>\$4,077,934</u>	<u>\$4,234,361</u>	<u>4,662,108</u>	<u>(\$427,747)</u>
Excess of Receipts Under Disbursements			<u>(321,770)</u>	
<b>Other Financing Sources (Uses):</b>				
Advances In			17,000	
Advances Out			<u>(30,670)</u>	
Total Other Financing Sources			<u>(13,670)</u>	
Net Change in Fund Balance			(335,440)	
Fund Balance Beginning of Year			1,653,574	
Prior Year Encumbrances Appropriated			<u>198,987</u>	
Fund Balance End of Year			<u>\$1,517,121</u>	

See accompanying notes to the supplementary information.

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**NOTES TO THE SCHEDULE OF RECEIPTS, DISBURSEMENT AND CHANGE  
IN CASH BASIS FUND BALANCE – BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**A. BASIS OF BUDGETING**

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

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

**B. GENERAL BUDGET POLICIES**

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

The primary level of budget control established by the Governing Board for the General Fund is at the fund/function/object level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of the General Fund must be approved by resolution of the Governing Board. During fiscal year 2013, there were modifications to the appropriation budget approved by the Governing Board. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts.

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

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

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

**C. BUDGETARY BASIS OF ACCOUNTING**

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

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

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NOTES TO THE SCHEDULE OF RECEIPTS, DISBURSEMENT AND CHANGE  
IN CASH BASIS FUND BALANCE – BUDGET AND ACTUAL (BUDGET BASIS) GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)

<b>Net Change in Fund Balance</b>	
	<b>General Fund</b>
Budget basis	(\$335,440)
Funds budgeted elsewhere**	(25)
Adjustment for encumbrances	934
Cash Basis	<u>(\$334,531)</u>

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**SCHEDULE OF FEDERAL AWARD RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Pass-Through Agency Program Titles</b>	<b>Federal CFDA Number</b>	<b>Project Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>U.S. Department of Education</b>				
(Passed through the Ohio Department of Education)				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	2013	\$734,197	\$734,197
Special Education Preschool Grants	84.173	2013	<u>54,531</u>	<u>50,875</u>
Total Special Education Cluster			788,728	785,072
(Passed through the Ohio Department of Health)				
Special Education-Grants for Infants and Families	84.181	2013	52,625	55,379
		2012	<u>1,260</u>	<u>55,379</u>
Total Special Education-Grants for Infants and Families			53,885	55,379
Twenty First Century Community Learning Centers	84.287	2012	11,320	6,016
English Language Acquisition State Grant	84.365	2013	20,839	41,851
		2012	<u>6,256</u>	<u>41,851</u>
Total English Language Acquisition State Grant			<u>27,095</u>	<u>41,851</u>
Total U.S Department of Education			881,028	888,318
<b>U.S. Department of Health &amp; Human Services</b>				
(Passed through the Ohio Department of Job & Family Services)				
(Passed through the Mercer County Department of Job & Family Services)				
Temporary Assistance Needy Families - Summer Youth Program	93.558	2013	<u>          </u>	<u>5,615</u>
Total Federal Financial Assistance			<u>\$881,028</u>	<u>\$893,933</u>

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
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**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Disbursements (the Schedule) reports the Mercer County Educational Service Center's (the Service Center) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

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

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

District	FY13 Award Amount IDEA Part-B	FY13 Award Amount IDEA Early Childhood
Coldwater Exempted Village School District	\$ 0	\$19,281
Ft Recovery Local School District	192,139	7,742
Marion Local School District	156,890	13,206
Parkway Local School District	223,302	7,485
St Henry Consolidated Local School District	161,866	6,816
Total	\$734,197	\$54,531

**NOTE C – ADMINISTRATIVE AGENT**

The Mercer County Educational Service Center (the Service Center) is the Administrative Agent for the Mercer County Family and Children First Council in that capacity, the Service Center was awarded the Special Education – Grants for Infants and Families, CFDA #84.181 through the Ohio Department of Health. The receipts and expenditures of this grant are reported as part of the Schedule of Federal Awards Receipts and Disbursements for the Service Center.



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, Mercer County (Service Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated November 13, 2013, wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles. Also as disclosed in Note 3, the Service Center restated its fund balances for Other Governmental, Private Purpose Trust, and Agency Funds, and Net Position of Governmental Activities, Agency and Private Purpose Trust Funds as of July 1, 2012.

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

As part of our financial statement audit, we considered the Service Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Service Center's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-002 described in the accompanying schedule of findings to be a material weakness.

***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, opining 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 and 2013-002.

***Entity's Response to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

November 13, 2013



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Mercer County Educational Service Center's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Mercer County Educational Service Center's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Service Center's major federal programs.

### ***Management's Responsibility***

The Service Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the Service Center's compliance for each of the Service Center's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Service Center's major programs. However, our audit does not provide a legal determination of the Service Center's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Mercer County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal programs for the year ended June 30, 2013.

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

***Report on Internal Control over Compliance***

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Service Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

November 13, 2013

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

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

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

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

**FINDING NUMBER 2013-001**

**1. Failure to File GAAP Report**

**NONCOMPLIANCE**

**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 sure reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**Ohio Adm. Code Section 117-2-03(B)** requires the Service Center to file annual financial reports which are prepared using generally accept accounting principles (GAAP). However, the Service Center prepared its financial statements for 2013 following the cash accounting basis. This is a comprehensive accounting basis other than 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 its annual financial statements in accordance with generally accepted accounting principles to include assets, liabilities, and the disclosures to provide a complete presentation of financial status.

**Official's Response:** The Board of Education has passed, by resolution, the use of GAAP financial reporting and subsequent higher audit costs are detrimental to the organization's finances and find the use of OCBOA reporting, which is acceptable by AICPA, provides excellent year-end financial reporting for the entity.

**FINDING NUMBER 2013-002**

**2. Financial Statements**

**NONCOMPLIANCE/MATERIAL WEAKNESS**

**Ohio Admin Code Section 117-2-02 (B)** states the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

- (1) Existence/occurrence: That recorded assets exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
- (2) Completeness: That all account balances and transactions that should be included in the financial records are included.
- (3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities, are obligations of the public office at the fiscal year end.
- (4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.

**FINDING NUMBER 2013-002  
(Continued)**

- (5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

The Service Center provided sign language, speech services, alternative school, and other services during fiscal year 2013 for which the participating districts were required to pay their portion of the shared costs. A total of \$275,855 was incorrectly recorded as tuition receipts instead of contract services. Also, the MECA Part C Grant Fund (022-9013) with over \$90,000 in revenues and expenditures was classified as an Agency Fund instead of a Special Revenue Fund and the Franklin Walter Scholarship Fund was classified as an Agency Fund instead of a Private Purpose Trust Fund.

The lack of properly classifying funds and revenues resulted in misstatements in the fiscal yearend financial statements. The accompanying financial statements have been revised to correct these reporting errors along with the districts ledgers.

The Service Center should utilize the Auditor of State Bulletins, the Uniform School Accounting System (USAS) manual and other Auditor of State guidance for assistance in the proper classification of funds and in the recording of receipt transactions in their records and on the yearend financial statements.

**Official's Response:** This will be corrected in FY14.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2012-001	Ohio Rev. Code Section 117.38 & Ohio Admin. Code Section 117-2-03(B) – Failed to prepare financial statements in accordance with GAAP	No	Repeated as Finding Number 2013-001
2012-002	Failure to Monitor Shared Services Contracts	Partially corrected	Repeated in separate letter to Management



# Dave Yost • Auditor of State

**MERCER COUNTY EDUCATIONAL SERVICE CENTER**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 17, 2013**