



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 the Mercer County Educational Service Center, Mercer County, Ohio (the Service Center), as of and for the year ended June 30, 2014, 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 2 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 the Mercer County Educational Service Center, Mercer County, Ohio, as of June 30, 2014, thereof for the year then ended in accordance with the accounting basis described in Note 2.

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 2 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 their net position of Governmental Activities and fund balances for General Fund as of July 1, 2013.

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. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Disbursements (the 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 the Schedule 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 the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule 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 the Schedule 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 March 16, 2015, 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

March 16, 2015

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(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, 2014. 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 2014 are as follows:

- General receipts accounted for \$340,553 or 6 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$5,711,526 or 94 percent of total receipts of \$6,052,079.
- In total, program disbursements were \$5,935,563.
- In total, net position increased \$116,516.

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 2014, 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, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(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 2014?" 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 10. 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)
(Continued)*

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 fiduciary funds. The Service Center's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 15 and 16. 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.

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net position for fiscal year 2014 compared to 2013.

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

	Governmental Activities	
	2014	Restated 2013
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 1,886,821	\$ 1,770,305
<i>Total Assets</i>	\$ 1,886,821	1,770,305
Net Position		
Restricted for:		
Other Purposes	\$ 257,240	\$ 164,435
Unrestricted	1,629,581	1,605,870
<i>Total Net Position</i>	\$ 1,886,821	\$ 1,770,305

The net position of the governmental activities increased \$116,516 which represents a 7 percent increase from fiscal year 2013. This is due to increased receipts from services and operating grants.

A portion of the Service Center's net position, \$257,240, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$1,629,581 may be used to meet the Service Center's ongoing obligations.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)
(Continued)*

Table 2 shows the changes in net position for fiscal year 2014 as compared to fiscal year 2013.

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

	Governmental Activities	
	2014	Restated 2013
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 4,090,404	\$ 3,056,015
Operating Grants, Contributions and Interest	1,621,122	1,035,699
<i>Total Program Receipts</i>	5,711,526	4,091,714
General Receipts		
Grants and Entitlements not Restricted to		
Specific Programs	316,305	1,282,031
Investment Earnings	3,099	4,164
Miscellaneous	21,149	4,983
<i>Total General Receipts</i>	340,553	1,291,178
<i>Total Receipts</i>	6,052,079	5,382,892
Program Disbursements		
Instruction:		
Regular	52,621	136,010
Special	3,792,222	3,330,202
Support Services:		
Pupils	1,195,302	1,139,945
Instructional Staff	277,718	289,822
Governing Board	55,213	56,708
Administration	288,543	299,580
Fiscal	102,375	104,009
Business	8,825	8,673
Operation and Maintenance of Plant	46,892	179,212
Pupil Transportation	72,814	64,039
Central	41,653	74,803
Extracurricular Activities	1,385	25
Debt Service	0	2,007
<i>Total Program Disbursements</i>	5,935,563	5,685,035
<i>Change in Net Position</i>	116,516	(302,143)
<i>Net Position Beginning of Year</i>	1,770,305	2,072,448
<i>Net Position End of Year</i>	\$ 1,886,821	\$ 1,770,305

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)
(Continued)*

The State changed its funding formula for education service centers in Ohio, which caused the \$965,726 decrease in grants and entitlements not restricted to specific programs. As a direct result, the Service Center had to increase charges to its member schools, resulting in an increase of \$1,034,389 in charges for sales and services.

Operating grant receipts increased \$585,423 and special instruction disbursements increased \$462,020, primarily due to the summer TANF/WIA grant program that was new in fiscal year 2014.

Operation and maintenance of plant disbursements for fiscal year 2014 were \$46,892 which is a \$132,320 decrease from fiscal year 2013. This is attributed to a window replacement project being completed in fiscal year 2013.

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**

	Total Costs of Services		Net Costs of Services	
	2014	Restated 2013	2014	Restated 2013
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 52,621	\$ 136,010	\$ 2,628	\$ (8,734)
Special	3,792,222	3,330,202	(239,024)	314,599
Support Services:				
Pupils	1,195,302	1,139,945	156,420	569,892
Instructional Staff	277,718	289,822	32,181	132,948
Governing Board	55,213	56,708	55,213	56,708
Administration	288,543	299,580	45,977	137,423
Fiscal	102,375	104,009	102,375	104,009
Business	8,825	8,673	8,825	8,673
Operation and Maintenance of Plant	46,892	179,212	46,892	179,212
Pupil Transportation	72,814	64,039	(8,090)	64,039
Central	41,653	74,803	19,255	32,520
Extracurricular Activities	1,385	25	1,385	25
Debt Service	0	2,007	0	2,007
<i>Total</i>	<u>\$ 5,935,563</u>	<u>\$ 5,685,035</u>	<u>\$ 224,037</u>	<u>\$ 1,593,321</u>

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)
(Continued)*

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 \$1,886,821, which is higher than the prior year balance of \$1,770,305.

The General Fund had total cash receipts, including other financing sources, of \$4,542,531. The cash disbursements, including other financing uses, of the general fund totaled \$4,487,326. The general fund's fund balance increased \$55,205 in fiscal year 2014 due to increased receipts. Additionally, disbursements decreased, partially due to window replacement project being completed in fiscal year 2013.

The Part B – IDEA Fund had total cash receipts, including other financing sources, of \$749,616 and total cash disbursements of \$749,562, which resulted in a slight increase in fund balance of \$54.

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.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Net Position - Cash Basis
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,886,821</u>
<i>Total Assets</i>	<u><u>\$ 1,886,821</u></u>
Net Position	
Restricted for:	
Other Purposes	\$ 257,240
Unrestricted	<u>1,629,581</u>
<i>Total Net Position</i>	<u><u>\$ 1,886,821</u></u>

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2014

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 52,621	\$ 0	\$ 49,993	\$ (2,628)
Special	3,792,222	2,683,800	1,347,446	239,024
Support Services:				
Pupils	1,195,302	921,247	117,635	(156,420)
Instructional Staff	277,718	245,537	0	(32,181)
Governing Board	55,213	0	0	(55,213)
Administration	288,543	239,820	2,746	(45,977)
Fiscal	102,375	0	0	(102,375)
Business	8,825	0	0	(8,825)
Operation and Maintenance of Plant	46,892	0	0	(46,892)
Pupil Transportation	72,814	0	80,904	8,090
Central	41,653	0	22,398	(19,255)
Extracurricular Activities	1,385	0	0	(1,385)
<i>Totals</i>	<u>\$ 5,935,563</u>	<u>\$ 4,090,404</u>	<u>\$ 1,621,122</u>	<u>(224,037)</u>

General Receipts

Grants and Entitlements not Restricted to Specific Programs	316,305
Investment Earnings	3,099
Miscellaneous	21,149
<i>Total General Receipts</i>	<u>340,553</u>
<i>Change in Net Position</i>	116,516
<i>Net Position Beginning of Year - Restated, See Note 3</i>	<u>1,770,305</u>
<i>Net Position End of Year</i>	<u>\$ 1,886,821</u>

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2014

	General Fund	Part B - IDEA Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1,661,075	\$ 54	\$ 225,692	\$ 1,886,821
<i>Total Assets</i>	<u>\$ 1,661,075</u>	<u>\$ 54</u>	<u>\$ 225,692</u>	<u>\$ 1,886,821</u>
Fund Balances				
Nonspendable	\$ 31,494	\$ 0	\$ 0	\$ 31,494
Restricted	0	54	225,692	225,746
Committed	101,476	0	0	101,476
Unassigned	1,528,105	0	0	1,528,105
<i>Total Fund Balances</i>	<u>\$ 1,661,075</u>	<u>\$ 54</u>	<u>\$ 225,692</u>	<u>\$ 1,886,821</u>

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General Fund	Part B - IDEA Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$ 397,209	\$ 730,116	\$ 810,102	\$ 1,937,427
Investment Income	3,099	0	0	3,099
Contracted Services	4,013,554	0	0	4,013,554
Tuition and Fees	69,740	0	0	69,740
Extracurricular Activities	7,110	0	0	7,110
Miscellaneous	21,149	0	0	21,149
<i>Total Receipts</i>	<u>4,511,861</u>	<u>730,116</u>	<u>810,102</u>	<u>6,052,079</u>
Disbursements				
Current:				
Instruction:				
Regular	1,196	0	51,425	52,621
Special	2,461,452	0	524,428	2,985,880
Support Services:				
Pupils	1,041,988	0	153,314	1,195,302
Instructional Staff	277,718	0	0	277,718
Governing Board	55,213	0	0	55,213
Administration	271,252	0	17,291	288,543
Fiscal	102,375	0	0	102,375
Business	8,825	0	0	8,825
Operation and Maintenance of Plant	46,892	0	0	46,892
Pupil Transportation	72,814	0	0	72,814
Central	26,596	0	15,057	41,653
Extracurricular	1,385	0	0	1,385
Intergovernmental	0	749,562	56,780	806,342
<i>Total Disbursements</i>	<u>4,367,706</u>	<u>749,562</u>	<u>818,295</u>	<u>5,935,563</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>144,155</u>	<u>(19,446)</u>	<u>(8,193)</u>	<u>116,516</u>
Other Financing Sources (Uses)				
Advances In	30,670	19,500	100,120	150,290
Advances Out	(119,620)	0	(30,670)	(150,290)
<i>Total Other Financing Sources (Uses)</i>	<u>(88,950)</u>	<u>19,500</u>	<u>69,450</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	55,205	54	61,257	116,516
<i>Fund Balances Beginning of Year - Restated, See Note 3</i>	<u>1,605,870</u>	<u>0</u>	<u>164,435</u>	<u>1,770,305</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,661,075</u>	<u>\$ 54</u>	<u>\$ 225,692</u>	<u>\$ 1,886,821</u>

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 2,351	\$ 39,343
<i>Total Assets</i>	<u>\$ 2,351</u>	<u>\$ 39,343</u>
 Net Position		
Held in Trust for Scholarships	\$ 2,351	\$ 0
Held on Behalf of Other Governments	0	39,343
<i>Total Net Position</i>	<u>\$ 2,351</u>	<u>\$ 39,343</u>

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust
Additions	
Gifts/Donations	\$ 1,747
Deductions	
Payments in Accordance with Trust Agreements	1,344
<i>Change in Net Position</i>	403
<i>Net Position Beginning of Year</i>	1,948
<i>Net Position End of Year</i>	\$ 2,351

See accompanying notes to the basic financial statements.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 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 Governing Board (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, Sheakley Uniservice, Inc. Group Rating Program, and Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 10 and 11 to the financial statements. The Service Center is also involved with a related party, the Aladdin Academy, which is presented in Note 12 to the financial statements.

NOTE 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
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(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.

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

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.

FUND FINANCIAL STATEMENTS

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

Mercer County Educational Service Center
Mercer County, Ohio

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

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

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

The funds of the financial reporting entity are described below:

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 2014:

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.

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 private purpose trust funds and agency funds. The Service Center's private purpose trust fund consists of the Franklin Walter Scholarship Fund. 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
Mercer County, Ohio

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

C. Budgetary Process

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures to assist them in fiscal accountability.

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. 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 Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2014 were \$3,099, which includes \$371 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.

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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

H. Long-term Debt

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

I. Intergovernmental Receipts

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

J. Inventory and Prepaid Items

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

K. Pass-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2014, these funds included the Special Education Grants to States (Part B-IDEA), Special Education Preschool Grant, Title III Grant and Help Me Grow Grant. The intergovernmental disbursements have been allocated to the programs on the entity-wide statement of activities.

L. Interfund Transactions

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

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 2014 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.

Mercer County Educational Service Center
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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

N. Equity Classifications

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.

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:

- 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 Governing Board. The committed amounts cannot be used for any other purpose unless the Governing Board 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.

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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

- 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 Governing Board. The Governing Board has by resolution authorized the Treasurer to assign fund balance.
- 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

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.

Disbursements

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

P. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2014, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Service Center.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 3 –RESTATEMENT OF FUND BALANCE/NET POSITION

For fiscal year 2014, the Service Center modified its financial statements to reflect the reclassification of Camp Inquire funds from general to agency type. The restatement had the following effect on the net position/fund balances as of July 1, 2013:

	<u>Governmental Activities</u>	
Previously Reported Net Position	\$ 1,785,906	
Change in Fund Structure	<u>(15,601)</u>	
Restated Net Position, July 1, 2013	<u>\$ 1,770,305</u>	
		<u>Total Governmental Funds</u>
Previously Reported Fund Balance	\$ 1,621,471	\$ 1,785,906
Change in Fund Structure	<u>(15,601)</u>	<u>(15,601)</u>
Restated Fund Balance, July 1, 2013	<u>\$ 1,605,870</u>	<u>\$ 1,770,305</u>

NOTE 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;

**Mercer County Educational Service Center
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*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
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2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
 3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
 4. Bonds and other obligations of the State of Ohio;
 5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
 6. The State Treasurer's investment pool (STAROhio 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.

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*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

At June 30, 2014, the carrying amount of the Service Center's deposits was \$1,928,390 and the bank balance was \$2,213,762. Of the bank balance, \$1,750,227 was covered by federal depository insurance and \$463,535 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 undeposited cash on hand which is included in the end of year fund cash balances.

NOTE 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.

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*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

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 are also reported as contracted services.

NOTE 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 2014, 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 2014, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property	
Building and Business (No deductible)	\$ 1,944,779
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

**Mercer County Educational Service Center
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*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

General Annual Aggregate	\$ 14,000,000
Fire Legal Liability	500,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000/25,000
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)	10,000/25,000
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.

B. Workers' Compensation

The Service Center participates in the Sheakley Uniservice, Inc. Group Rating Program (the Program), an insurance purchasing pool. The Program is intended to reduce premiums for the participants. The worker's compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the program.

Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Program is limited to educational entities that can meet the Program's selection criteria. Each participant must apply annually. The Program provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

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.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 7 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Service Center contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

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 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 2014, 13.05 percent and .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 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, 2014, 2013 and 2012 were \$138,011, \$128,898 and \$71,652, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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.

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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

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 2014, plan members were required to contribute 11 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 11 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, 2014, 2013 and 2012 were \$372,229, \$331,718 and \$380,267, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$10,190 made by the Service Center and \$8,006 made by the plan members.

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, 2014, certain members of the Governing Board have elected social security. The Governing Board's liability is 6.2 percent of wages paid.

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Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The Service Center participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System 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 plan 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 Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. 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 SERS' website at 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 fiscal year 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$19,548, \$1,574, and \$3,399, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$8,007, \$7,281, and \$4,248, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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 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 fiscal year 2014, 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, 2014, 2013, and 2012 were \$28,633, \$25,517 and \$29,251, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

NOTE 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 Governing Board. The Service Center provides life insurance to employees through Metropolitan Educational Council.

NOTE 10 - 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.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

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.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 11 - 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. Sheakley Uniservice, Inc. Workers’ Compensation Group Rating Program

The Service Center participates in a group rating plan for workers’ compensation as established under Section 4123.29 of the Ohio Revised Code. Each year, the participants pay an enrollment fee to the Program 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.

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 12 – RELATED PARTY TRANSACTIONS

Aladdin Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of at-risk students in grades 6 through 12. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was approved for operation under a contract with the Governing Board of the Service Center (the “Sponsor”) for a period of five years commencing with fiscal year July 1, 2013 through June 30, 2018. The contract outlined the specific payments to be made by the Academy to the Service Center/Sponsor during fiscal year 2014. In addition, it also stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by the Service Center/Sponsor. The Academy paid the Service Center/Sponsor \$126,469 during fiscal year 2014 for salaries and benefits.

NOTE 13 – FUND BALANCE

Fund balance is classified as nonspendable, 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:

	<u>General</u>	<u>Part B - IDEA</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:				
Unclaimed Monies	\$ 31,494	\$ 0	\$ 0	\$ 31,494
Restricted for:				
Educational Activities	0	54	225,692	225,746
Committed to:				
Educational Activities	41,476	0	0	41,476
Future Severance Payments	60,000	0	0	60,000
Total Committed	101,476	0	0	101,476
Unassigned	1,528,105	0	0	1,528,105
 Total Fund Balance	 <u>\$ 1,661,075</u>	 <u>\$ 54</u>	 <u>\$ 225,692</u>	 <u>\$ 1,886,821</u>

**Mercer County Educational Service Center
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 14 - INTERFUND ACTIVITY

During fiscal year 2014, the Service Center had the following interfund activity:

	<u>Advances In</u>	<u>Advances Out</u>
Major Governmental Funds:		
General Fund	\$30,670	\$119,620
Part-B Idea Grant	19,500	0
Other Governmental Funds:		
Parent Mentor Grant	6,520	0
WIA Grant	58,500	0
Summer TANF/WIA Program	10,600	5,620
MECA PART-C Grant	21,400	4,000
Title III Grant	<u>3,100</u>	<u>21,050</u>
Totals	<u>\$150,290</u>	<u>\$150,290</u>

Short term loans or advances were made during fiscal year 2014 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 2014, the Service Center had no transfers between separate funds.

NOTE 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, 2014, if applicable, cannot be determined at this time.

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
Mercer County, Ohio**

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)*

NOTE 16 – ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2014, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass-Through Agency Program Titles	Federal CFDA Number	Project Number	Receipts	Disbursements
U.S. Department of Education				
(Passed through the Ohio Department of Education)				
<i>Special Education Cluster:</i>				
Special Education Grants to States	84.027	2014	\$730,116	\$749,561
Special Education Preschool Grants	84.173	2014	53,122	53,122
		2013		3,656
Total Special Education Preschool Grants			<u>53,122</u>	<u>56,778</u>
Total Special Education Cluster			783,238	806,339
English Language Acquisition State Grant	84.365	2014	67,426	49,493
(Passed through the Ohio Department of Health)				
Special Education-Grants for Infants and Families	84.181	2014	<u>66,022</u>	<u>66,794</u>
Total U.S Department of Education			916,686	922,626
U.S. Department of Health and Human Services				
(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	350,997	340,336
(Passed through Area 8 Workforce Investment Board)				
Workforce Investment Act - Youth Activities	17.259	2014	<u>148,531</u>	<u>153,326</u>
Total U.S. Department of Health and Human Services			<u>499,528</u>	<u>493,662</u>
Total Federal Financial Assistance			<u>\$1,416,214</u>	<u>\$1,416,288</u>

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND DISBURSEMENTS
FISCAL YEAR ENDED JUNE 30, 2014**

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:

<u>District</u>	<u>Award Amount IDEA Part-B</u>	<u>Award Amount IDEA Early Childhood</u>
Celina City School		\$1,609
Coldwater Exempted Village School District		19,638
Ft Recovery Local School District	\$195,862	7,662
Marion Local School District	160,686	13,326
Parkway Local School District	226,760	7,531
St Henry Consolidated Local School District	166,253	7,012
Total	<u>\$749,561</u>	<u>\$56,778</u>

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, Ohio (the Service Center) as of and for the year ended June 30, 2014, 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 March 16, 2015, wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles. We also noted as disclosed in Note 3, the Service Center restated their net position of Governmental Activities and fund balance for General Fund as July 1, 2013.

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 and questioned costs we identified a certain deficiency in internal control over financial reporting, that we consider a 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 2014-002 described in the accompanying schedule of findings and questioned costs 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 and questioned costs as items 2014-001 and 2014-002.

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 and questioned costs. 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

March 16, 2015



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 each of the Mercer County Educational Service Center's major federal programs for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs 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 Each Major Federal Program

In our opinion, the Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004. These findings do not require us to modify our compliance opinion on each major federal program.

The Service Center's responses to our noncompliance findings are described in the accompanying schedule of findings and questioned costs and / or corrective action plan. We did not audit the Service Center's responses and, accordingly, we express no opinion on them.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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's 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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-004 to be a material weakness.

The Service Center's response to our internal control over compliance finding is described in the accompanying schedule of findings and questioned costs and / or corrective action plan. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

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.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 16, 2015

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster CFDA# 84.027 Special Education Grant CFDA# 84.173 Special Education Preschool Grant Workforce Investment Act CFDA# 17.259 – Youth Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2014-001

NONCOMPLIANCE

Failure to File GAAP Report

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

Ohio Adm. Code Section 117-2-03(B) requires the Service Center to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). However, the Service Center prepared its financial statements for 2014 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 2014-002

NONCOMPLIANCE/MATERIAL WEAKNESS

Financial Statements

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 2014-002
 (Continued)**

- (5) Presentation and disclosure: The 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 various services during fiscal year 2014 for which the participating districts were required to pay their portion of the shared costs. The portion of these revenues (\$295,938) was recorded as General revenue in the Statement of Activities and should have been reported as Program revenue – charges for services (\$215,034) and Program revenue -operating grants (\$80,904). Also, the Camp Inquire Funds (001-9011 and 001-9012) with remaining balances totaling \$15,601 were classified as part of the General Fund rather than an Agency Fund since the Service Center is acting as an custodian of these funds.

The lack of properly classifying funds and revenues resulted in misstatements in the fiscal year-end 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: The treasurer recognizes she is responsible for the final financial compilation documents and will, in the future, review the documents prior to filing and ask the preparer to list the funds in the appropriate categories in order to avoid having to make changes during the audit. The treasurer will spend more time reviewing the compilation prior to the filing of the documents to ensure everything is presented the way the ESC wants the information presented.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Activities Allowed / Unallowed, Allowable Costs / Cost Principles, and Period of Availability - Adjustments

Finding Number	2014-003
CFDA Title and Number	CFDA# 84.027 Special Education Grant CFDA# 84.173 Special Education Preschool Grant
Federal Award Number / Year	2014
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

FINDING NUMBER 2014-003
(Continued)

Questioned Cost

2 CFR part 225 Appendix B 8 Compensation for personal services, (a) General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities; (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and (3) Is determined and supported as provided in subsection h. **(d) Fringe benefits.** (1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit. (2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit. (3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

The Service Center posted several adjustments to the Special Ed Preschool Grant fund, which essentially moved expenditures paid out of the general fund, into the grant fund. The description states the adjustments were for salary and fringe benefits; however, proper support was not maintained in order to determine which teachers' salary and benefits, as well as, for what pay period, were actually adjusted. The Service Center was able to re-create support in order to prove compliance with the Special Ed Grant requirements, for one of the adjustments; however, there was a slight variance for the fringe benefits. No support was available for the two other adjustments. The total amount of unsupported adjustments was \$23,727.

Without proper support, the Service Center cannot prove that these adjustments were for allowable expenditures and that they occurred during the period of availability.

In order to ensure compliance with federal programs, the Service Center should maintain sufficient support in order to provide evidence that the components of the adjustments affecting the grant funds are compliant with all applicable A-133 sections for the grant.

Officials' Response: The Treasurer will establish that personnel on the preschool grant will be paid directly from the grant rather than from 'correcting entries' during the year. Due to the late nature of this change, there will be 'correcting entries' specifically by an employee supported with an ERNREG showing earnings from September 1 through the end of March. The corrections from September through March will be made by individual person in order to show correct postings for each person's earnings in payroll. Beginning in April 2015 and thereafter, the payroll clerk will correctly charge payroll for preschool with the account codes entered into PAYSCN so those individuals are charged directly to the grant.

FINDING NUMBER 2014-004

Noncompliance/Material Weakness

Accuracy of Federal Schedule

OMB Circular A-133, Subpart C, Section 300(d), requires that the Service Center shall prepare appropriate financial statements, including the schedule of federal awards receipts and disbursement for the period covered by the Service Center's financial statements. The federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of federal agency, and name of pass-through agency. The Service Center prepared a schedule of awards receipts and disbursements (the Schedule), but had the following errors noted:

- 1: Grant receipts and disbursements for the Workforce Investment Act - Youth Activities program were not presented. As a result, total receipts were understated by \$148,531 and total disbursements were understated by \$153,326.
- 2: Grant receipts and disbursements for the Temporary Assistance Needy Families - Summer Youth Program were not presented. As a result, total receipts were understated by \$350,997 and total disbursements were understated by \$340,336.
- 3: Help Me Grow - Special Education Grants for Infants and Families receipts were overstated by \$97,226 and disbursements were overstated by \$108,777.
- 4: Special Education Preschool Grants disbursements were understated by \$3,656.
- 5: Title III - English Language Acquisition State Grant receipts were understated by \$21,898 and disbursements were understated by \$887.

This resulted in the Schedule's receipts being understated by \$424,200 and expenditures understated by \$389,427. The accompanying Schedule of Federal Awards Receipts and Disbursements has been adjusted to correct the above errors and omissions.

The failure to include all grant activity or including improper activity on the Schedule resulted in the material misstatement of the Schedule and may result in follow-up action being taken by the grantor agency.

Procedures should be implemented to help assure that the Schedule includes the activity of all federal grants that benefited the Service Center.

Officials' Response: The Treasurer will take more time and care in entering the grants' receipts and expenditures correctly on the end-of-year financial documents. The amounts will be verified by checking against the ODE CCIP PCR sheet as well as other reports available to be sure everything is exact and correct.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code Section 117.38 & Ohio Admin. Code Section 117-2-03(B) – Failed to prepare financial statements in accordance with GAAP.	No	Not Corrected, See Finding 2014-001.
2013-002	Ohio Admin Code Section 117-2-02 (B) failure to properly classify receipts and misclassifying funds.	No	Not Corrected, See Finding 2014-002.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2014**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2014-001	The Board of Education has passed, by resolution the use of GAAP financial reporting and subsequent higher audit cost are detrimental to the organization finances and find the use of OCBOA report, which is acceptable by AICPA, provides excellent year-end financial reporting for the entity.	Ongoing	Treasurer and Board
2014-002	The treasurer recognizes she is responsible for the final financial compilation documents and will, in the future, review the documents prior to filing and ask the preparer to list the funds in the appropriate categories in order to avoid having to make changes during the audit. The treasurer will spend more time reviewing the compilation prior to the filing of the documents to ensure everything is presented the way the ESC wants the information presented.	Ongoing	Treasurer
2014-003	The Treasurer will establish that personnel on the preschool grant will be paid directly from the grant rather than from correcting entries during the year. I am paying one preschool teacher directly for the preschool grant. This way one can see that the ESC has used Federal Preschool monies on employees who work in that grant classification.	Beginning 2014-2015 school year	Treasurer
2014-004	The Treasurer will take more time and care in entering the grants' receipts and expenditures correctly on the end-of-year financial documents. The amounts will be verified by checking against the ODE CCIP PCR sheet as well as other reports available to be sure everything is exact and correct.	2015	Treasurer

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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
APRIL 7, 2015**