



**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Mercer County Educational Service Center, Mercer County, (the Center) as of and for the year ended June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Mercer County Educational Service Center, Mercer County, as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2001 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the June 30, 2000 general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

January 16, 2001

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000**

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency</u>	<u>General</u>	<u>General</u>	
				<u>Fixed Assets</u>	<u>Long-Term Obligations</u>	
Assets and Other Debits:						
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$894,671	\$67,939	\$4,788	\$0	\$0	\$967,398
Receivables:						
Accounts	20	0	0	0	0	20
Intergovernmental	86,181	0	0	0	0	86,181
Interfund	4,000	0	0	0	0	4,000
Accrued Interest	5,700	0	0	0	0	5,700
Prepaid Items	1,726	0	0	0	0	1,726
Fixed Assets	0	0	0	218,108	0	218,108
Other Debits:						
Amount to be Provided from General Governmental Resources	0	0	0	0	37,344	37,344
Total Assets and Other Debits	\$992,298	\$67,939	\$4,788	\$218,108	\$37,344	\$1,320,477
Liabilities, Fund Equity, and Other Credits:						
Liabilities:						
Accounts Payable	\$3,514	\$10,104	\$0	\$0	\$0	\$13,618
Accrued Wages and Benefits	382,309	9,602	0	0	0	391,911
Compensated Absences Payable	0	0	0	0	37,344	37,344
Intergovernmental Payable	311,613	0	0	0	0	311,613
Interfund Payable	0	4,000	0	0	0	4,000
Deferred Revenue	58,513	0	0	0	0	58,513
Undistributed Assets	0	0	4,788	0	0	4,788
Total Liabilities	755,949	23,706	4,788	0	37,344	821,787
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	218,108	0	218,108
Fund Balance:						
Reserved for Encumbrances	17,912	14,845	0	0	0	32,757
Unreserved	218,437	29,388	0	0	0	247,825
Total Fund Equity and Other Credits	236,349	44,233	0	218,108	0	498,690
Total Liabilities, Fund Equity, and Other Credits	\$992,298	\$67,939	\$4,788	\$218,108	\$37,344	\$1,320,477

See Accompanying Notes to the General Purpose Financial Statements

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General	Special Revenue	Totals (Memorandum Only)
Revenues:			
Intergovernmental	\$3,540,764	\$578,459	\$4,119,223
Interest	34,546	0	34,546
Tuition and Fees	37,913	0	37,913
Customer Services	744,670	0	744,670
Extracurricular Activities	29,004	0	29,004
Gifts and Donations	734	0	734
Miscellaneous	481	2,733	3,214
Total Revenues	4,388,112	581,192	4,969,304
Expenditures:			
Current:			
Instruction:			
Regular	233,081	123,494	356,575
Special	1,830,973	50,940	1,881,913
Support Services:			
Pupils	1,314,153	84,242	1,398,395
Instructional Staff	398,592	48,153	446,745
Board of Education	15,312	0	15,312
Administration	196,276	6,477	202,753
Fiscal	57,476	1,493	58,969
Business	16,572	0	16,572
Operation and Maintenance of Plant	9,532	10,704	20,236
Central	6,194	0	6,194
Extracurricular Activities	18,779	0	18,779
Intergovernmental	0	243,013	243,013
Total Expenditures	4,096,940	568,516	4,665,456
Excess of Revenues Over Expenditures	291,172	12,676	303,848
Fund Balances (Deficit) at Beginning of Year	(54,823)	31,557	(23,266)
Fund Balances at End of Year	\$236,349	\$44,233	\$280,582

See Accompanying Notes to the General Purpose Financial Statements.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$3,517,039	\$3,540,764	\$23,725	\$712,579	\$578,459	(\$134,120)
Interest	15,000	30,948	15,948	0	0	0
Tuition and Fees	14,000	39,193	25,193	0	0	0
Customer Services	716,686	717,183	497	0	0	0
Extracurricular Activities	34,710	29,073	(5,637)	300	0	(300)
Gifts and Donations	6,000	734	(5,266)	0	0	0
Miscellaneous	0	740	740	0	0	0
Total Revenues	4,303,435	4,358,635	55,200	712,879	578,459	(134,420)
Expenditures:						
Current:						
Instruction:						
Regular	303,100	218,653	84,447	208,734	127,194	81,540
Special	1,895,320	1,874,371	20,949	222,694	211,898	10,796
Support Services:						
Pupils	1,236,000	1,204,708	31,292	101,711	84,939	16,772
Instructional Staff	486,590	474,595	11,995	165,204	142,167	23,037
Board of Education	19,250	15,608	3,642	0	0	0
Administration	209,825	203,970	5,855	4,082	6,477	(2,395)
Fiscal	71,350	65,870	5,480	3,441	1,596	1,845
Business	22,000	17,466	4,534	0	0	0
Operation and Maintenance of Plant	11,000	10,274	726	46,300	10,704	35,596
Central	8,000	7,300	700	5,000	0	5,000
Extracurricular Activities	41,000	28,418	12,582	0	0	0
Total Expenditures	4,303,435	4,121,233	182,202	757,166	584,975	172,191
Excess of Revenues Over (Under) Expenditures	0	237,402	237,402	(44,287)	(6,516)	37,771
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	0	0	0	0	2,733	2,733
Advances In	0	2,800	2,800	0	4,000	4,000
Advances Out	0	(4,000)	(4,000)	0	(2,800)	(2,800)
Total Other Financing Sources (Uses)	0	(1,200)	(1,200)	0	3,933	3,933
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	0	236,202	236,202	(44,287)	(2,583)	41,704
Fund Balances at Beginning of Year	630,272	630,272	0	41,971	41,971	0
Prior Year Encumbrances Appropriated	8,607	8,607	0	3,602	3,602	0
Fund Balances at End of Year	\$638,879	\$875,081	\$236,202	\$1,286	\$42,990	\$41,704

See Accompanying Notes to the General Purpose Financial Statements.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

1. DESCRIPTION OF THE REPORTING ENTITY

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

The Mercer County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has ten administrators, forty-two classified employees, and sixty-five certified teaching personnel that provide services to 9,356 students from the local, exempted village, and city school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational 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 Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Mercer County Educational Service Center.

The Educational Service Center is associated with four jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the NOACSC Workers' Compensation Group Rating Plan, and the Mercer Auglaize Employee Benefit Trust. Information about these organizations is presented in Notes 14 and 15 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

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

1. Governmental Fund Types:

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

General Fund

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

Special Revenue Funds

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

2. Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's fiduciary funds are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Account Groups:

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental fund types and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, investment earnings, tuition, fees, and customer services.

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

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

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

1. Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Educational Service Center's Board.

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Encumbrances:

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

3. Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

During fiscal year 2000, investments were limited to certificates of deposit and STAR Ohio. Certificates of deposit are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2000.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2000 was \$34,546, which included \$6,894 assigned from other Educational Service Center funds.

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

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets and Depreciation

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

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

G. Interfund Assets/Liabilities

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

H. Compensated Absences

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

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

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

I. Accrued Liabilities and Long-Term Obligations

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance Reserves

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

K. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

MECA

TOPS

Education Management Information Systems

SchoolNet Professional Development

Alternative Schools

Parent Mentor

BCII Scanner

Safe Schools

Eisenhower

Title VI-B

Drug Free

Early Childhood Preschool

Learn Serve

Grants and entitlements were 83 percent of the Educational Service Center's revenues during the 2000 fiscal year.

L. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2000, this included the Title VI-B special revenue fund.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Transactions

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

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

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

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

3. COMPLIANCE AND ACCOUNTABILITY

A. Accountability

At June 30, 2000, the MECA and Drug Free special revenue funds had deficit fund balances of \$8,961 and \$1,850, respectively, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2000:

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Type/Fund/ Function/Object	Appropriations	Expenditures	Excess
Special Revenue Fund			
Miscellaneous Federal Grants			
Instruction			
Special			
Salaries	\$2,422	\$10,845	(\$8,423)
Fringe Benefits	183	820	-637
Purchased Services	93	331	-238
Materials and Supplies	1355	4055	-2700
Capital Outlay New	524	540	-16
Support Services			
Pupils			
Salaries	\$567	\$2,375	(\$1,808)
Administration			
Salaries	582	2978	-2396

4. BUDGETARY BASIS OF ACCOUNTING

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

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types		
	General	Special Revenue
GAAP Basis	\$291,172	\$12,676
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 1999, Received in Cash FY 2000	3911	0
Accrued FY 2000, Not Yet Received in Cash	-33388	0
Expenditure Accruals:		
Accrued FY 1999, Paid in Cash FY 2000	(\$701,937)	(\$11,216)
Accrued FY 2000, Not Yet Paid in Cash	697436	19706
Prepaid Items	-202	0
Advances In	2800	4000
Advances Out	-4000	-2800
Encumbrances Outstanding at Year End (Budget Basis)	-19590	-24949
Budget Basis	\$236,202	(\$2,583)

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational 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 Educational Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

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

At fiscal year end, the School District had \$12,987 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$952,470 and the bank balance was \$1,157,041. Of the bank balance, \$500,000 was covered by federal depository insurance and \$657,041 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or the Educational Service Center's agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2000, the fair value of funds on deposit with STAR Ohio was \$1,941.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$967,398	\$0
Cash on Hand	(12,987)	0
Investments:		
STAR Ohio	(1,941)	1,941
GASB Statement No. 3	\$952,470	\$1,941

6. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$36. This amount is provided from State resources.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

6. STATE FUNDING (Continued)

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

7. RECEIVABLES

Receivables at June 30, 2000, consisted of accounts, intergovernmental, interfund, and accrued interest. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. Accounts receivable at June 30 were \$20.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Special Education	\$2,262
Alternative Education	21,700
Shared Cost	62,038
Miscellaneous	181
Total Intergovernmental Receivables	\$86,181

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2000 follows:

Asset Category	Balance at 6/30/99	Additions	Reductions	Balance at 6/30/00
Furniture, Fixtures, and Equipment	\$126,004	\$92,104	\$0	\$218,108

9. INTERFUND ASSETS/LIABILITIES

At June 30, 2000, the General Fund had an interfund receivable, in the amount of \$4,000, and the MECA and Drug Free special revenue funds had interfund payables, in the amount of \$2,100, and \$1,900, respectively.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

10. RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2000, the Educational Service Center contracted for the following insurance coverages:

Coverages provided by Westfield Insurance Company:

Business Personal Property (\$250 deductible)	\$40,000
Premises and Operations (\$250 deductible)	300,000
Inland Marine Coverage (\$250 deductible)	88,388

Coverages by Harcum-Hyre Insurance Company:

Automobile Combined Liability	1,000,000
General Liability- Per occurrence	2,000,000
- Total Per Year	5,000,000

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

For fiscal year 2000, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (the Plan) (Note 15), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the Plan. Each year, the Educational Service Center pays an enrollment fee to the Plan to cover the costs of administering the program.

The Educational Service Center participates in the Mercer Auglaize Employee Benefit Trust (the Trust) (Note 15), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Educational Service Center pays monthly premiums to the Trust for employee 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.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

11. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2000. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998, were \$137,005, \$126,215, and \$193,480, respectively; 7 percent has been contributed for fiscal year 2000 and 100 percent for fiscal years 1999 and 1998. The unpaid contribution for fiscal year 2000, in the amount of \$127,816, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2000. For fiscal year 1999, 7.7 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998, were \$30,412, \$37,325, and \$31,091, respectively; 100 percent has been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2000, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

12. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2000, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$182,673 for fiscal year 2000.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 1999 (the latest information available). For the fiscal year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000, and STRS had 95,796 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$47,001 for fiscal year 2000.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999, were \$126,380,984, and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188 million. SERS has approximately 51,000 participants currently receiving health care benefits.

13. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

13. EMPLOYEE BENEFITS (Continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty-five days.

B. Health Care Benefits

The Educational Service Center provides medical and dental insurance to all employees through the Mercer-Auglaize Employee Benefit Trust. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. The Educational Service Center provides life insurance to employees through Core Source.

14. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The Educational 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, 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 Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.

B. Mercer County Local Professional Development Committee

The Educational Service Center is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The committee is governed by an 11 member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center. Board members serve two year terms. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. West Central Regional Professional Development Center

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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

D. West Central Ohio Special Education Regional Resource Center

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

15. INSURANCE POOLS

A. NOACSC Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (the Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator, Robert Lotz, of NOACSC, or his designee, serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Mercer Auglaize Employee Benefit Trust

The Mercer Auglaize Employee Benefit Trust (the 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 participants superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
(Continued)**

16. SCHOOL FOUNDATION PROGRAM

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's Legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "School Foundation Program", which provides significant monetary support to the Educational Service Center. During the fiscal year ended June 30, 2000, the Educational Service Center received \$3,527,264 of school foundation support for its General Fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General assembly in an attempt to address the issues identified by the Court. The Court of Common of Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Supreme Court rendered an opinion on this issue. The Supreme Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled". The Supreme Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision; however, it found seven "...major areas warrant further attention, study, and development by the Ohio General Assembly...", including the State's reliance on local property tax funding; the State's basic aid formula; the school foundation program, as discussed above; the mechanism for, and adequacy of, funding for school facilities; and the existence of the State's School Solvency Assistance Fund, which the Supreme Court found took the place of the unconstitutional emergency school loan assistance program.

The Supreme Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

17. CONTINGENT LIABILITIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2000.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION (Passed through Ohio Department of Education)				
Title VI-B, Special Education Grants to States	048546 6B-SF 2000	84.027	\$243,013	\$243,013
Preschool Subsidy	048546-PG-S1 1998	84.298	33,006	42,414
Preschool Subsidy	048546-PG-S1 1999	84.298	<u>14,482</u>	<u>5,575</u>
Total Title VI			47,488	47,989
Drug Free Grant	048546 DR-S1 1999	84.186	7,625	10,322
Drug Free Grant	048546 DR-S1 2000	84.186	<u>5,548</u>	<u>7,398</u>
Total Drug Free Grant			13,173	17,720
Eisenhower Professional Development State Grant	048546 MS-S1 2000	84.281	0	10,700
Learn and Serve Grant	048546 SV-S3 1999	94.004	0	3,220
Learn and Serve Grant	048546 SV-S3 2000	94.004	<u>15,000</u>	<u>15,444</u>
Total Learn and Serve Grant			15,000	18,664
Goals 2000 Project Grant - Continuous Improvement	048546 G2-S2 2000	84.276	<u>5,000</u>	<u>2,978</u>
Total U.S. Department of Education			323,674	341,064
Total Federal Assistance			<u>\$323,674</u>	<u>\$341,064</u>

See accompanying notes to the schedule of federal awards expenditures.

**MERCER EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

Certain federal programs require that the Educational Service Center contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on the Schedule.

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

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

To the Board of Education:

We have audited the financial statements of the Mercer County Educational Service Center (the Center) as of and for the year ended June 30, 2000, and have issued our report thereon dated January 16, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2000-10254-001. We also noted an immaterial instance of noncompliance that we have reported to the management of the Center in a separate letter dated January 16, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated January 16, 2001.

Mercer County Educational Service Center
Mercer County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

January 16, 2001



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

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

To the Board of Education:

Compliance

We have audited the compliance of the Mercer County Educational Service Center (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2000. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2000.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

January 16, 2001

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2000**

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

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2000
(Continued)

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

Finding Number	2000-10254-001
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Ohio Rev. Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 for educational service centers, may be paid by the fiscal officer without such affirmation of the board of education upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

In 70% of the transactions tested, the obligation date preceded the date of the Treasurer's certification. Neither of the exceptions noted above were utilized for these transactions.

The Center should develop procedures and controls to assure compliance with this requirement.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2000**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
1999-10254-001	Ohio Rev. Code Section 5705.41 (B)	No	Finding no Longer Valid - Revised Code Section determined to not be applicable to the Service Center. Recommendation made in the management letter regarding exceeding established budgets.



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MERCER EDUCATIONAL SERVICE CENTER

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2001**