



**Auditor of State
Betty Montgomery**

EDUCATIONAL SERVICE CENTER
MERCER COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended June 30, 2004, the Center revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

October 31, 2005

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

Management's discussion and analysis of the Mercer County Educational Service Center's (the Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General Receipts accounted for \$495,171 in receipts, or 8% of all receipts. Contract services receipts account for \$3,189,652 or 51% of all receipts.
- Total program expenses were \$6,214,209, all of governmental activities.
- In total, net assets increased \$19,841, or 2.6% increase from the prior year.

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 Center as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2004, the Telecommunity Adding Partners Grant Fund is by far the most significant fund.

Basis of Accounting

The Center has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

EDUCATIONAL SERVICE CENTER
MERCER COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the Center's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Center's programs and services, including instruction, support services, and operation and maintenance of plant (buildings).

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major funds begins on page 13. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds include the General Fund and the Telecommunity Adding Partners Grant Fund.

Governmental Funds - Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Reporting the Educational Service Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in three agency funds. The Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 16. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The Educational Service Center as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The 2003 financial statements were prepared in accordance with generally accepted accounting principles but did not include the implementation of GASB 34. As a result, attempting to compare this year's data to last years would be misleading to the reader. The Center will provide this comparative analysis in subsequent years.

Table 1 provides a summary of the Center's net assets for 2004:

**(Table 1)
Net Assets – Cash Basis**

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>	<u>Totals</u>
ASSETS			
Cash & cash equivalents	\$ 785,416	\$ 37,855	\$ 823,271
Total Assets	<u>\$ 785,416</u>	<u>\$ 37,855</u>	<u>\$ 823,271</u>
NET ASSETS			
Restricted:			
Capital Projects	\$ 101,154	\$ 0	\$ 101,154
Other purposes	45,805	0	45,805
Held for Other Governments	0	24,518	24,518
Held for Employees	0	13,337	13,337
Unrestricted	<u>638,457</u>	<u>0</u>	<u>638,457</u>
Total Net Assets	<u>\$ 785,416</u>	<u>\$ 37,855</u>	<u>\$ 823,271</u>

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Center has prepared financial statements following GASB Statement No. 34, receipts and disbursements comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the Center's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	<u>Governmental Activities</u>
Receipts	
<i>Program Receipts</i>	
Charges for Services	\$ 3,377,679
Operating Grants	2,213,601
Capital Grants	147,599
 <i>General Receipts</i>	
Grants and Entitlements	379,254
Interest	4,005
Miscellaneous	113,132
Other Financing Sources	<u>0</u>
 Total Receipts	 6,235,270
 <i>Program Disbursements</i>	
Instruction	2,974,864
Support Services	2,492,931
Non-Instructional	1,632
Capital Outlay	180,645
Redemption of Principal	36,627
Debt Interest	748
Refund of Prior Year Receipts	1,220
Intergovernmental	<u>526,762</u>
 Total Disbursements	 <u>6,215,429</u>
 Increase in Net Assets	 <u>\$ 19,841</u>

Governmental Activities

Several receipt sources fund the Center's governmental activities with school foundation program being the largest contributor. School foundation provided \$4.1 million during 2004. School foundation receipts include contract receipts from local school districts. Additional charges for services are received directly from local school districts for services performed. General receipts from grants and entitlements are also a large receipts generator. With the combination of charges for services and intergovernmental funding at over 80% of expenses in governmental activities, the Center monitors both of these receipt sources very closely for fluctuations

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

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 charges for services receipts and unrestricted State entitlements. Comparisons to 2004 have not been made since they are not available.

**(Table 3)
Governmental Activities**

	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$ 2,974,864	\$ (185,981)
Support Services:		
Pupil and Instructional Staff	1,798,871	143,571
Board of Education, Administration		
Fiscal and Business	583,375	447,735
Operation and Maintenance of Plant	100,057	(10,416)
Pupil Transportation	2,525	2,120
Central	8,103	8,103
Operation of Non-instructional Services	1,632	(223)
Capital Outlay	180,645	33,046
Debt Principal and Interest	37,375	37,375
Intergovernmental Disbursements	526,762	0
Total	\$ 6,214,209	\$ 475,330

Instruction and student support services comprise 76.8% of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 1.7% of governmental program expenses. Interest, fiscal and administration charges were 7.7%. The interest expense was attributable to the outstanding vehicle and building loans of the Educational Service Center.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2004, the Educational Service Center did significantly modify its general fund budget. The Educational Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis receipts was \$4,710,131 under the original budget estimates of \$5,325,901. Of this \$615,770 decrease, most was attributable to a decrease in miscellaneous receipts.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the Center had \$780,907 invested in land, buildings, vehicles and equipment. Table 4 shows fiscal year 2004 balances compared with 2003.

**(Table 4)
Capital Assets at June 30,
(Net of Depreciation)**

	2004	2003
Building	\$ 100,000	\$ 0
Furniture, Fixtures and Equipment	456,496	303,059
Vehicles	114,411	114,411
Construction in Process	0	134,867
Totals	\$ 670,907	\$ 552,337

Debt

At June 30, 2004, the Center had \$58,095 outstanding long-term debt, with \$27,240 due within one year. See note 10 for additional details. Table 5 summarizes the outstanding debt.

**(Table 5)
Outstanding Debt, at June 30,**

**Governmental
Activities**

	2004	2003
Vehicle Loan #1	\$ 0	\$ 9,537
Vehicle Loan #2	8,095	10,185
Building Loan	50,000	75,000
Total	\$ 58,095	\$ 94,722

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Current Issues

The 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 Center.

Another concern is the State Legislative approval of the biennial budget which may have a negative impact on the Center. How the legislature plans to fund educational 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 Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the challenges of the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Center's finances and to show the 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 Street, Celina, OH 45822 or mc_treas@noacsc.org.

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EDUCATIONAL SERVICE CENTER
MERCER COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	<u>\$785,416</u>
<i>Total Assets</i>	<u><u>785,416</u></u>
Net Assets	
Restricted for:	
Capital Projects	101,154
Other Purposes	45,805
Unrestricted	<u>638,457</u>
<i>Total Net Assets</i>	<u><u>\$785,416</u></u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
JUNE 30, 2004**

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	
Governmental Activities:					
Instruction					
Regular	\$592,786	\$291,270	\$383,821		\$82,305
Special	2,366,485	1,589,448	884,219		107,182
Other	15,593	12,087			(3,506)
Support Services					
Pupil	1,457,828	1,248,065	12,812		(196,951)
Instructional Staff	341,043	236,809	157,614		53,380
Board of Education	87,600				(87,600)
Administration	382,768		132,640		(250,128)
Fiscal	96,699		3,000		(93,699)
Business	16,308				(16,308)
Operation and Maintenance of Plant	100,057		110,473		10,416
Pupil Transportation	2,525		405		(2,120)
Central	8,103				(8,103)
Operation of Non-Instructional Services	1,632		1,855		223
Capital Outlay					
Facilities Acquisition and Construction	180,645			147,599	(33,046)
Redemption of Principal	36,627				(36,627)
Debt Interest	748				(748)
Intergovernmental Disbursements	526,762		526,762		
Total Governmental Activities	\$6,214,209	\$3,377,679	\$2,213,601	\$147,599	(475,330)
General Receipts					
					379,254
					4,005
					113,132
					(1,220)
					<u>495,171</u>
					19,841
					<u>765,575</u>
					<u>\$785,416</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASETS AND FUND BALANCES
JUNE 30, 2004**

	<u>General Fund</u>	<u>Telecommunity Adding Partners Grant</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
Assets				
Cash and Cash Equivalents	\$593,332	\$87,940	\$104,144	\$785,416
<i>Total Assets</i>	<u>593,332</u>	<u>87,940</u>	<u>104,144</u>	<u>785,416</u>
Fund Balances				
Reserved for Encumbrances	11,391		45,127	56,518
Unreserved:				
Undesignated, Reported in:				
General Fund	581,941			581,941
Special Revenue Funds			45,803	45,803
Capital Projects Funds		87,940	13,214	101,154
<i>Total Fund Balances</i>	<u>\$593,332</u>	<u>\$87,940</u>	<u>\$104,144</u>	<u>\$785,416</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	Telecommunity Adding Partners Grant	Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$1,221,152	\$87,940	\$1,430,272	\$2,739,364
Contract Services	3,189,652			3,189,652
Interest	2,916		1,089	4,005
Tuition and Fees	155,027			155,027
Extracurricular Activities	16,003		5,838	21,841
Miscellaneous	125,381			125,381
<i>Total Receipts</i>	<u>4,710,131</u>	<u>87,940</u>	<u>1,437,199</u>	<u>6,235,270</u>
Disbursements				
Current:				
Instruction				
Regular	324,470		268,316	592,786
Special	2,336,373		30,112	2,366,485
Other	5,104		10,489	15,593
Support Services				
Pupil	1,351,435		106,393	1,457,828
Instructional Staff	304,170		36,873	341,043
Board of Education	87,600			87,600
Administration	271,379		111,389	382,768
Fiscal	91,899		4,800	96,699
Business	16,308			16,308
Operation and Maintenance of Plant	26,218		73,839	100,057
Pupil Transportation			2,525	2,525
Central	8,103			8,103
Operation of Non-Instructional Services			1,632	1,632
Capital Outlay				
Facilities Acquisition and Construction			180,645	180,645
Redemption of Principal	26,227		10,400	36,627
Debt Interest	358		390	748
Intergovernmental Disbursements			526,762	526,762
<i>Total Disbursements</i>	<u>4,849,644</u>		<u>1,364,565</u>	<u>6,214,209</u>
<i>Receipts Over (Under) Disbursements</i>	<u>(139,513)</u>	<u>87,940</u>	<u>72,634</u>	<u>21,061</u>
Other Financing Sources (Uses)				
Advances-In	68,600		12,300	80,900
Advances-Out	(19,300)		(61,600)	(80,900)
Refund of Prior Year Receipts			(1,220)	(1,220)
<i>Total Other Financing Sources (Uses)</i>	<u>49,300</u>		<u>(50,520)</u>	<u>(1,220)</u>
<i>Net Change in Fund Balances</i>	(90,213)	87,940	22,114	19,841
<i>Fund Balances Beginning (See Note 3)</i>	<u>683,545</u>		<u>82,030</u>	<u>765,575</u>
<i>Fund Balances End of Year</i>	<u>\$593,332</u>	<u>\$87,940</u>	<u>\$104,144</u>	<u>\$785,416</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
CASH BASIS FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$851,348	\$1,215,836	\$1,221,152	\$5,316
Contract Services	3,189,652	3,189,652	3,189,652	
Interest	4,500	4,500	2,916	(1,584)
Tuition and Fees	158,450	158,450	155,027	(3,423)
Extracurricular Activities	66,550	66,550	16,003	(50,547)
Miscellaneous	1,055,401	690,913	125,381	(565,532)
<i>Total Receipts</i>	<u>5,325,901</u>	<u>5,325,901</u>	<u>4,710,131</u>	<u>(615,770)</u>
Disbursements				
Current:				
Instruction				
Regular	380,299	385,299	324,610	60,689
Special	2,323,835	2,758,435	2,336,888	421,547
Other	8,418	8,418	5,104	3,314
Support Services				
Pupil	1,772,181	1,594,181	1,351,629	242,552
Instructional Staff	361,141	397,141	313,277	83,864
Board of Education	80,000	89,500	87,600	1,900
Administration	300,720	302,120	271,414	30,706
Fiscal	90,985	95,685	91,899	3,786
Business	27,000	23,300	16,308	6,992
Operation and Maintenance of Plant	25,300	30,300	27,618	2,682
Pupil Transportation				
Central	9,700	9,700	8,103	1,597
Operation of Non-Instructional Services				
Capital Outlay				
Facilities Acquisition and Construction	25,000	25,000		25,000
Redemption of Principal			26,227	(26,227)
Debt Interest			358	(358)
<i>Total Disbursements</i>	<u>5,404,579</u>	<u>5,719,079</u>	<u>4,861,035</u>	<u>858,044</u>
<i>Receipts Over (Under) Disbursements</i>	<u>(78,678)</u>	<u>(393,178)</u>	<u>(150,904)</u>	<u>242,274</u>
Other Financing Sources (Uses)				
Advances-In	61,600	61,600	68,600	7,000
Advances-Out		(5,100)	(19,300)	(14,200)
Refund of Prior Year Receipts				
<i>Total Other Financing Sources (Uses)</i>	<u>61,600</u>	<u>56,500</u>	<u>49,300</u>	<u>(7,200)</u>
Net Change in Fund Balances	(17,078)	(336,678)	(101,604)	235,074
Fund Balances Beginning	677,954	677,954	677,954	
Prior Year Encumbrances Appropriated	5,591	5,591	5,591	
Fund Balances End of Year	<u>\$666,467</u>	<u>\$346,867</u>	<u>\$581,941</u>	<u>\$235,074</u>

See accompanying notes to the financial statements.

EDUCATIONAL SERVICE CENTER
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$37,855
<i>Total Assets</i>	<u>37,855</u>
Net Assets	
Held for Other Governments	24,518
Held for Employees	13,337
<i>Total Net Assets</i>	<u>\$37,855</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND 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 the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 9 administrators, 63 classified employees and 59 certified teaching personnel that provide services to 8,744 students from its local, exempted village and city school districts.

Reporting Entity

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 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 organizations' 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. The Educational Service Center currently has no component units.

The Educational Service Center participates in five jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Notes 12 and 13 to the financial statements. These organizations are:

Jointly Governed Organizations:

- Northwest Ohio Area Computer Services Cooperative (NOACSC)
- Mercer County Local Professional Development Committee
- West Central Regional Professional Development Center
- West Central Ohio Special Education Regional Resource Center (SERRC)
- Northwestern Ohio Educational Research Council, Inc.

Insurance Purchasing Pools:

- Ohio Risk Sharing Authority
- OASBO Workers' Compensation Group Rating Plan
- Mercer Auglaize Employee Benefit Trust

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

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

B. Basis of Presentation - Fund Accounting

Government-Wide Financial Statements

The Statement of Net Assets-Cash Basis and Statement of Activities-Cash Basis display information about the Educational Service Center as a whole. The statements include all funds of the Educational Service Center except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Educational 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 Educational 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 Educational 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 Educational Service Center. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

Fund Financial Statements

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The funds of the financial reporting entity are described below:

1. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The following are the Educational Service Center's major governmental fund:

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

Telecommunity Adding Partners Fund - This fund accounts for the specific receipts to be used for the repair and maintenance or purchase of telecommunications equipment, such as video and conference equipment, for the participating schools.

2. Proprietary Fund/Business-Type Activities

Proprietary funds are used to account for ongoing activities which are similar to those found in the private sector. The Educational Service Center does not have proprietary fund-type accounts.

3. Fiduciary Fund Types

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 include agency funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The Educational Service Center's agency funds include a Local Professional Development Committee, and Family and Children First, and the Section 125 Plan.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data

The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. The appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are budgeted and appropriated, except for the Agency Fund for the Section 125 Plan.

1. Appropriations:

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

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

2. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the 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.

D. Cash and Investments

To improve cash management, all 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 accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon Educational Service Center policy. During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Unpaid Vacation and Sick 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 Educational Service Center.

F. Capital Assets

Capital assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these capital assets.

G. Inventory

On the cash basis of accounting, inventories of supplies are reported as disbursements when purchased.

H. Long-term Obligations

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. Pass-Through Grants

The Educational 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 Educational Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental expenditures in a special revenue fund. For fiscal year 2004, these funds included the Special Education Grants to States & Special Education Preschool Grant.

J. Equity Classifications

1. Government-Wide Statements

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

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.” The Educational Service Center applies restricted resources when a disbursement is incurred for purpose for which both restricted and unrestricted net assets are available.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

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

3. RESTATEMENT OF FUND BALANCES

For fiscal year 2004, the Educational Service Center changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. The Center also corrected the classification of two funds. These changes had the following effect on fund balances as previously reported:

	Fund Balance June 30, 2003	Accrual Adjustment	Restated Fund Reclassifications	Fund Balance July 1, 2003
General	\$152,016	\$542,314	\$(10,785)	\$683,545
Special Revenue	21,220	2,392	12,158	35,770
Capital Project	30,433	15,827		46,260
Agency		19,250	(1,373)	17,877

4. 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 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.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

Deposits: At June 30, 2004, the carrying amount of the Educational Service Center's deposits was \$740,059 and the bank balance was \$996,170. Of the bank balance, \$100,000 was covered by federal depository insurance and \$896,170 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: 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 its 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.

Funds invested by the District are held in the State Treasurer's Investment Pool (Star Ohio), with a carrying value and market value of \$83,137 at June 30, 2004. The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

5. PRIMARY RECEIPT SOURCES

There are two primary sources of operating receipts for Educational Service Center. The first primary source for Educational Service Center operating dollars comes from the local districts that have contracted with the Educational Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Educational 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 Educational Service Center's territory times \$37.00. The Educational 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.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. PRIMARY RECEIPT SOURCES (Continued)

The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

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

B. State Foundation Distributions

1. Amounts Paid by the Locals

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contract services.

2. Amounts Paid under Contract by Locals

This section has only one part. It represents amounts due to the Educational Service Center for services provided under contract with participating districts which the Educational Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

6. RISK MANAGEMENT

A. Property and Liability

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 2004, the Educational Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Business Personal Property (\$1,000 deductible)	\$1,011,000
Automobile Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate limit	3,000,000
Educators Legal Liability	
Errors or Omissions	1,000,000
Stop Gap General Liability	1,000,000

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. RISK MANAGEMENT (Continued)

For fiscal year 2004, the Educational Service Center participated in the Ohio Risk Sharing Authority (ORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the ORSA for insurance coverage and pays annual premiums to the ORSA based on the types and limits of coverage and deductibles selected by the participant.

B. Workers' Compensation

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

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.

7. PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. PENSION PLANS (Continued)

DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002, was \$379,043, \$349,187, and \$251,286, respectively. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$35 made by the Service Center and \$8,690 made by plan members.

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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$88,944, \$69,741, and \$42,933, respectively.

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, 2004, two of the Governing Board members have elected Social Security. The Governing Board's liability is 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount equaled \$29,157 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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. The total amount of this surcharge for each employer is capped at a maximum of 2% of the center's annual SERS payroll. Should the total surcharge of all employers exceed 1.5% of the statewide SERS payroll, all employers' surcharge will be reduced proportionately. For fiscal year 2004, the minimum pay was established at \$25,400. For the Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$63,044.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

9. OTHER EMPLOYEE BENEFITS

A. Insurance 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 Educational Service Center provides life insurance to employees through CoreSource.

10. INTERFUND ITEMS

As of June 30, 2005, the following advances remain outstanding:

	Advances Out	Advances In
Governmental Activities:		
Major governmental funds:		
General	\$ 12,300	\$ 0
Nonmajor governmental funds:		
Special Revenue Funds:		
Alternative Ed. Challenge Grant	0	4,600
Safe Schools Grant	0	7,700
Total	\$ 12,300	\$ 12,300

11. DEBT OBLIGATIONS

The changes in the Service Center's debt obligations during fiscal year 2004 were as follows:

	Interest Rate	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Loan - Vehicle 1	6.5%	\$9,537	\$0	\$9,537	\$0
Loan - Vehicle 2	6.5%	10,185	0	2,090	8,095
Loan - Building	0	75,000	0	25,000	50,000
Total Debt Obligations		\$94,722	\$0	\$36,627	\$58,095

Loan Payable - Vehicle 1 - During fiscal year 2002, the Service Center refinanced the loan for this van due to lower interest rates. The original loan, at an interest rate of 9.74 percent and with an outstanding balance of \$13,231, was refinanced on December 26, 2002, in the amount of \$11,748, at an interest rate of 6.5 percent. The loan was issued for a three year period, with a final maturity during fiscal year 2006. However, the Center opted to pay this loan off early, and made their final payment on September 30, 2003.

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

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire the loans payable outstanding at June 30, 2004, were as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Loans</u> <u>Payable</u>	<u>Interest</u>	<u>Total</u>
2005	\$27,240	\$460	\$27,700
2006	30,855	63	30,918
	<u>\$58,095</u>	<u>\$523</u>	<u>\$58,618</u>

12. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

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

B. Mercer County Local Professional Development Committee

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

C. West Central Regional Professional Development Center

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

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. West Central Ohio Special Education Regional Resource Center

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

E. Northwestern Ohio Educational Research Council, Inc.

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

The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. During fiscal year 2003, the Service Center paid \$150 to NOERC for various services. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

13. INSURANCE PURCHASING POOLS

A. Ohio Risk Sharing Authority

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

B. OASBO Workers' Compensation Group Rating Plan

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

13. INSURANCE PURCHASING POOLS (Continued)

C. Mercer Auglaize Employee Benefit Trust

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

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

14. CONTINGENCIES

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 District at June 30, 2004.

B. State School Funding Decision

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

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

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

15. SUBSEQUENT EVENT

On August 15, 2005 the Educational Service Center amended the terms of the outstanding vehicle loan. The term of the loan was increased by twenty months with a new maturity date of March 13, 2007. Monthly payments will be \$287.51 beginning September 13, 2005.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/ Pass-Through Grantor/ Program Titles</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Receipts</u>	<u>Disbursements</u>
U.S. Department of Education				
(Passed through the Ohio Department of Education)				
Special Education Cluster:				
Special Education - Grants to States (Indicators of Success)	84.027	048546-6BEC-2002	(\$1,220)	
Special Education - Grants to States (IDEA, Part B)	84.027	048546-6BSF-2004	<u>526,762</u>	<u>\$526,762</u>
Total Special Education - Grants to States			525,542	526,762
Special Education - Preschool Grants (IDEA Preschool)	84.173	048546-PGS1-2003	45,334	1,943
Special Education - Preschool Grants (IDEA Preschool)	84.173	048546-PGS1-2004	<u>55,139</u>	<u>53,636</u>
Total Special Education - Preschool Grants			<u>100,473</u>	<u>55,579</u>
Total Special Education Cluster			626,015	582,341
Safe and Drug-Free Schools and Communities - National	84.184C	048546-T4S1-2004	3,674	15,809
21st Century Community Learning Centers Grant	84.287	048546-T1S1-2003	71,250	77,767
21st Century Community Learning Centers Grant	84.287	048546-T1S1-2004	<u>375,000</u>	<u>306,869</u>
Total 21st Century Community Learning Centers Grant			446,250	384,636
(Passed through the Ohio School Facility Commission)				
Federal Emergency Repair Program/School Innovation, IDEA and Technology Program	84.352A		<u>146,510</u>	<u>180,645</u>
Total Federal Financial Assistance			<u><u>\$1,222,449</u></u>	<u><u>\$1,163,431</u></u>

See accompanying Notes to the Schedule of Federal Awards

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

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

NOTE C -- RETURN OF UNUSED FUNDS

The following return of unused grant monies occurred during our audit period;

<u>CFDA No.</u>	<u>Project No.</u>	<u>Amount Transferred</u>
84.027	048546-6BEC-2002	(\$ 1,220)

NOTE D -- ADMINISTRATIVE AGENT

The Education Service Center is the Administrative Agent for the Mercer County Family and Children First Council. In that capacity, the Center was awarded \$39,193 under the Help Me Grow Program, CFDA #84.181 through the Ohio Department of Health. The receipt and expenditure of this grant is not reported as part of the Schedule of Federal Awards for the Center. The federal grant is considered to be part of the Mercer County Family and Children First Council, which issues a separate financial report.



Auditor of State Betty Montgomery

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

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

To the Governing Board:

We have audited the financial statements of the Educational Service Center, Mercer County, (the Center), as of and for the year ended June 30, 2004, and have issued our report thereon dated October 31, 2005, wherein we noted that the Center reports on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Center's management dated October 31, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the Center's management dated October 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

October 31, 2005



Auditor of State Betty Montgomery

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

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

To the Governing Board:

Compliance

We have audited the compliance of Educational Service Center, Mercer County, (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 apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could have directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures 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 apply to each of its major federal programs for the year ended June 30, 2004. However, in a separate letter to the Center's management dated October 31, 2005, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated October 31, 2005.

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



Betty Montgomery
Auditor of State

October 31, 2005

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA # 84.027: Grants to States (IDEA, Part B) & CFDA # 84.173: Preschool (IDEA) CFDA #84.287: 21 st Century Community Learning Centers Grant
(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 2004-001

NONCOMPLIANCE CITATION

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

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

FINDING NUMBER 2004-002

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance. Further, contracts and orders for expenditures lacking prior certificate should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$3,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

For the audit period July 1, 2003 to June 30, 2004, 72% of the transactions tested were not properly certified during the audit period. This represented \$15,218 of \$28,554 (total tested) or 54%. Then and now certifications were not issued for these transactions

The Educational Service Center should review Ohio Rev. Code Section 5705.41(D) and implement procedures for certification of funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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EDUCATIONAL SERVICE CENTER

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 1, 2005**