



Dave Yost • Auditor of State



**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY  
JUNE 30, 2017**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, Mercer County, Ohio (the Service Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, Mercer County, Ohio, as of June 30, 2017, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

*Other Information*

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 14, 2018

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)*

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The discussion and analysis of the Mercer County Educational Service Center's ("Service Center") financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

***Financial Highlights***

Key financial highlights for fiscal year 2017 are as follows:

- General receipts accounted for \$270,570 or 4 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$5,940,752 or 96 percent of total receipts of \$6,211,322.
- In total, program disbursements were \$6,183,618.
- In total, net position increased \$27,704.

***Using this Annual Report***

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Service Center as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2017, the General Fund and Part B – IDEA Fund are the Service Center's most significant funds.

***Basis of Accounting***

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

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

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)  
(Continued)*

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***Reporting the Service Center as a Whole***

*Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The statement of net position and the statement of activities answer this question.

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

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

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

*Fund Financial Statements*

The analysis of the Service Center's major funds begins on page 9. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds include the General Fund and the Part B – IDEA Fund.

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

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

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in fiduciary funds. The Service Center's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 15 and 16. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)  
(Continued)*

**The Service Center as a Whole**

Table 1 provides a summary of the Service Center's net position for fiscal year 2017 compared to 2016.

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

	Governmental Activities	
	2017	2016
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 1,587,336	\$ 1,559,632
<i>Total Assets</i>	<i>\$ 1,587,336</i>	<i>\$ 1,559,632</i>
<b>Net Position</b>		
Restricted for:		
Other Purposes	\$ 14,179	\$ 201,294
Unrestricted	1,573,157	1,358,338
<i>Total Net Position</i>	<i>\$ 1,587,336</i>	<i>\$ 1,559,632</i>

The net position of the governmental activities increased \$27,704 which represents a 1.8 percent increase from fiscal year 2016. This is due to receipts exceeding disbursements.

A portion of the Service Center's net position, \$14,179, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$1,573,157 may be used to meet the Service Center's ongoing obligations.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)  
(Continued)*

Table 2 shows the changes in net position for fiscal year 2017 as compared to fiscal year 2016.

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

	Governmental Activities	
	2017	2016
<b>Receipts</b>		
<b><i>Program Receipts</i></b>		
Charges for Services and Sales	\$ 4,909,302	\$ 4,528,213
Operating Grants, Contributions and Interest	1,031,450	1,172,481
<i>Total Program Receipts</i>	5,940,752	5,700,694
<b><i>General Receipts</i></b>		
Grants and Entitlements not Restricted to		
Specific Programs	244,803	275,842
Investment Earnings	1,375	4,628
Miscellaneous	24,392	84,686
<i>Total General Receipts</i>	270,570	365,156
<i>Total Receipts</i>	6,211,322	6,065,850
<b><i>Program Disbursements</i></b>		
Instruction:		
Regular	367,168	391,134
Special	3,376,215	3,476,422
Support Services:		
Pupils	1,169,904	1,268,813
Instructional Staff	476,481	462,587
Governing Board	51,088	40,312
Administration	321,637	285,673
Fiscal	131,177	128,102
Business	7,017	11,704
Operation and Maintenance of Plant	48,859	34,940
Pupil Transportation	95,069	0
Central	136,799	36,855
Operation of Non-Instructional Services:		
Food Service Operations	2,204	8,060
<i>Total Program Disbursements</i>	6,183,618	6,144,602
<i>Change in Net Position</i>	27,704	(78,752)
<i>Net Position Beginning of Year</i>	1,559,632	1,638,384
<i>Net Position End of Year</i>	\$ 1,587,336	\$ 1,559,632

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)  
(Continued)*

Charges for services and sales increased due to the timing of receipts for shared services.

**Governmental Activities**

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

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

	Total Costs of Services		Net Costs of Services	
	2017	2016	2017	2016
<b><i>Program Disbursements</i></b>				
Instruction:				
Regular	\$ 367,168	\$ 391,134	\$ 283,135	\$ 338,327
Special	3,376,215	3,476,422	(2,418,711)	(1,967,813)
Support Services:				
Pupils	1,169,904	1,268,813	1,126,683	1,089,237
Instructional Staff	476,481	462,587	465,787	452,481
Governing Board	51,088	40,312	50,517	39,885
Administration	321,637	285,673	318,040	278,389
Fiscal	131,177	128,102	129,710	126,746
Business	7,017	11,704	6,939	11,580
Operation and Maintenance of Plant	48,859	34,940	48,313	34,570
Pupil Transportation	95,069	0	93,709	0
Central	136,799	36,855	136,565	32,446
Operation of Non-Instructional Services:				
Food Service Operations	2,204	8,060	2,179	8,060
<b><i>Total</i></b>	<b><u>\$ 6,183,618</u></b>	<b><u>\$ 6,144,602</u></b>	<b><u>\$ 242,866</u></b>	<b><u>\$ 443,908</u></b>

***The Service Center's Funds***

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

The General Fund's fund balance increased \$116,427 in fiscal year 2017. The increase can be attributed mostly to an increase receipts for tuition and fees.

The Part B – IDEA Fund had no change in fund balance during fiscal year 2017.

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

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
(Unaudited)  
(Continued)*

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***Current Issues***

The Service Center has not anticipated any meaningful growth in State receipts. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the Service Center. Another concern is the State Legislative approval of the biennial budget, which had a negative impact on the Service Center. How the legislature plans to fund education programs during a weakened economy remains a concern. An additional concern lies with the need for services from the Service Center by not only the local districts but the city and exempted village districts. Without all participants, costs may increase to the point some districts could decide to no longer utilize the Service Center. This creates a strong need to maintain low costs along with enhanced services for the district.

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

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

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

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

**Mercer County Educational Service Center**  
**Mercer County, Ohio**  
*Statement of Net Position - Cash Basis*  
*June 30, 2017*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,587,336
<i>Total Assets</i>	<u>\$ 1,587,336</u>
<b>Net Position</b>	
Restricted for:	
Other Purposes	\$ 14,179
Unrestricted	<u>1,573,157</u>
<i>Total Net Position</i>	<u>\$ 1,587,336</u>

See accompanying notes to the basic financial statements.

**Mercer County Educational Service Center**  
**Mercer County, Ohio**  
*Statement of Activities - Cash Basis*  
*For the Fiscal Year Ended June 30, 2017*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 367,168	\$ 3,431	\$ 80,602	\$ (283,135)
Special	3,376,215	4,874,456	920,470	2,418,711
Support Services:				
Pupils	1,169,904	12,843	30,378	(1,126,683)
Instructional Staff	476,481	10,694	0	(465,787)
Governing Board	51,088	571	0	(50,517)
Administration	321,637	3,597	0	(318,040)
Fiscal	131,177	1,467	0	(129,710)
Business	7,017	78	0	(6,939)
Operation and Maintenance of Plant	48,859	546	0	(48,313)
Pupil Transportation	95,069	1,360	0	(93,709)
Central	136,799	234	0	(136,565)
Operation of Non-Instructional Services:				
Food Service Operations	2,204	25	0	(2,179)
<i>Totals</i>	\$ 6,183,618	\$ 4,909,302	\$ 1,031,450	(242,866)
 <b>General Receipts</b>				
				244,803
				1,375
				24,392
				270,570
				<i>Change in Net Position</i>
				27,704
				<i>Net Position Beginning of Year</i>
				1,559,632
				<i>Net Position End of Year</i>
				\$ 1,587,336

See accompanying notes to the basic financial statements.



**Mercer County Educational Service Center**  
**Mercer County, Ohio**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2017*

	General Fund	Part B - IDEA Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,572,405	\$ 0	\$ 14,931	\$ 1,587,336
<i>Total Assets</i>	<u>\$ 1,572,405</u>	<u>\$ 0</u>	<u>\$ 14,931</u>	<u>\$ 1,587,336</u>
<b>Fund Balances</b>				
Restricted	0	0	14,179	14,179
Committed	61,299	0	752	62,051
Assigned	12,814	0	0	12,814
Unassigned	1,498,292	0	0	1,498,292
<i>Total Fund Balances</i>	<u>\$ 1,572,405</u>	<u>\$ 0</u>	<u>\$ 14,931</u>	<u>\$ 1,587,336</u>

See accompanying notes to the basic financial statements.

**Mercer County Educational Service Center**  
**Mercer County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*in Fund Balances - Cash Basis - Governmental Funds*  
*For the Fiscal Year Ended June 30, 2017*

	General Fund	Part B - IDEA Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Intergovernmental	\$ 284,511	\$ 737,013	\$ 179,661	\$ 1,201,185
Investment Income	1,375	0	0	1,375
Contracted Services	149,405	0	0	149,405
Tuition and Fees	4,753,228	0	0	4,753,228
Extracurricular Activities	6,670	0	0	6,670
Gifts and Donations	60,568	0	14,500	75,068
Miscellaneous	23,882	0	509	24,391
<i>Total Receipts</i>	<u>5,279,639</u>	<u>737,013</u>	<u>194,670</u>	<u>6,211,322</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	297,445	0	69,723	367,168
Special	2,477,452	798,973	99,790	3,376,215
Support Services:				
Pupils	1,148,419	0	21,485	1,169,904
Instructional Staff	476,481	0	0	476,481
Governing Board	51,088	0	0	51,088
Administration	321,637	0	0	321,637
Fiscal	131,177	0	0	131,177
Business	7,017	0	0	7,017
Operation and Maintenance of Plant	48,859	0	0	48,859
Pupil Transportation	95,069	0	0	95,069
Central	20,925	0	115,874	136,799
Operation of Non-Instructional Services:				
Food Service Operations	2,204	0	0	2,204
<i>Total Disbursements</i>	<u>5,077,773</u>	<u>798,973</u>	<u>306,872</u>	<u>6,183,618</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>201,866</u>	<u>(61,960)</u>	<u>(112,202)</u>	<u>27,704</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	61,960	23,479	85,439
Advances Out	(85,439)	0	0	(85,439)
<i>Total Other Financing Sources (Uses)</i>	<u>(85,439)</u>	<u>61,960</u>	<u>23,479</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	116,427	0	(88,723)	27,704
<i>Fund Balances Beginning of Year</i>	<u>1,455,978</u>	<u>0</u>	<u>103,654</u>	<u>1,559,632</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,572,405</u>	<u>\$ 0</u>	<u>\$ 14,931</u>	<u>\$ 1,587,336</u>

See accompanying notes to the basic financial statements.

**Mercer County Educational Service Center**  
**Mercer County, Ohio**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2017*

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	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 4,211	\$ 26
<i>Total Assets</i>	<u>\$ 4,211</u>	<u>\$ 26</u>
 <b>Net Position</b>		
Held in Trust for Scholarships	\$ 4,211	\$ 0
Held on Behalf of Other Governments	0	26
<i>Total Net Position</i>	<u>\$ 4,211</u>	<u>\$ 26</u>

See accompanying notes to the basic financial statements.

**Mercer County Educational Service Center**  
**Mercer County, Ohio**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2017*

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	Private Purpose Trust
<b>Additions</b>	
Gifts/Donations	\$ 2,531
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	1,445
<i>Change in Net Position</i>	1,086
<i>Net Position Beginning of Year</i>	3,125
<i>Net Position End of Year</i>	\$ 4,211

See accompanying notes to the basic financial statements.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017*

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**NOTE 1 - DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY**

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

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

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

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

The Service Center participates in four jointly governed organizations and three insurance purchasing pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the State Support Team Region 6, the Northwestern Ohio Educational Research Council, Inc., the Schools of Ohio Risk Sharing Authority, the Sheakley Uniservice, Inc. Workers’ Compensation Group Rating Program, and the Mercer-Auglaize Area Schools Regional Council of Governments. These organizations are presented in Notes 9 and 10 to the financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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**A. Basis of Accounting**

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

**FUND FINANCIAL STATEMENTS**

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

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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

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

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2017:

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

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

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

Fiduciary Fund Types

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

**C. Budgetary Process**

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

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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**D. Cash and Cash Equivalents**

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

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which were not purchased with pooled monies are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2017 were \$1,375, which includes \$26 assigned from other funds.

**E. Restricted Assets**

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

**F. Capital Assets**

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

**G. Accumulated Leave**

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

**H. Long-term Debt**

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



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

*Notes To The Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*  
*(Continued)*

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**I. Intergovernmental Receipts**

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

**J. Inventory and Prepaid Items**

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

**K. Pass-Through Grants**

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2017, these funds included the Special Education Grants to States (Part B-IDEA), Special Education Preschool Grant, Title III Grant, Special Education Grants to Infants and Families, and Help Me Grow Grant. The intergovernmental disbursements have been allocated to the programs on the entity-wide statement of activities.

**L. Interfund Transactions**

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

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

The Service Center reports advance-in and advance-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements.

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

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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**N. Equity Classifications**

*GOVERNMENT-WIDE STATEMENTS*

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

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

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

*FUND FINANCIAL STATEMENTS*

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

- a. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board. The committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

*Notes To The Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*  
*(Continued)*

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- d. Assigned - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board. The Governing Board has by resolution authorized the Treasurer to assign fund balance.
- e. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**O. Receipts and Disbursements**

Program Receipts

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

Disbursements

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

**P. Pensions**

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Q. Implementation of New Accounting Policies**

For the fiscal year ended June 30, 2017, the Service Center has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

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

*Notes To The Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*  
*(Continued)*

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GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Service Center's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

**NOTE 3 –DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

*Notes To The Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2017*  
*(Continued)*

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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;
  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 forty percent of the interim monies available for investment at any one time; and
  8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
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***Deposits***

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

At June 30, 2017, the carrying amount of the Service Center's deposits was \$1,591,573 and the bank balance was \$1,749,767. Of the bank balance, \$1,194,829 was covered by federal depository insurance and \$554,938 was collateralized with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

**NOTE 4 - PRIMARY RECEIPT SOURCES**

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

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

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$27.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997. The third part represents supervisory extended service amounts associated with co-op units which would be recovered by the State from the districts that are parties to the cooperative agreement and reported as charges for services; however, the Service Center did not receive this type of funding during the fiscal year. These are State monies appropriately recorded as unrestricted grants-in-aid and reported as intergovernmental revenue.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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**B. State Foundation Distributions**

**1. Amounts Paid by the Local School Districts**

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

**2. Amounts Paid under Contract by Local School Districts**

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

**NOTE 5 - RISK MANAGEMENT**

**A. Property and Liability**

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2017, the Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

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**Mercer County Educational Service Center  
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*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
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For fiscal year 2017, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property	
Building and Business (No deductible)	\$ 2,039,773
Earth Movement Limit (\$50,000 deductible)	2,000,000
Flood Limit (\$50,000 deductible)	2,000,000
Equipment Breakdown (No deductible)	300,000,000
CFC Refrigerants (No deductible)	250,000
Hazardous Substance Contamination (No deductible)	250,000
Spoilage (No deductible)	250,000
Expediting Expenses (No deductible)	250,000
Crime Coverage	
Employee Dishonesty (No deductible)	1,000,000
Forgery or Alteration (No deductible)	1,000,000
Computer Fraud (No deductible)	1,000,000
Theft, Disappearance and Destruction (No deductible)	1,000,000
General Liability	
Bodily Injury and Property Damage (No deductible)	15,000,000
Personal Injury/Advertising Liability (No deductible)	15,000,000
Products/Completed Operations (No deductible)	15,000,000
Employers Stop Gap Liability	
Bodily Injury by Accident (Per Accident) (No deductible)	15,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	15,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	15,000,000
Aggregate Limit (No deductible)	15,000,000
General Annual Aggregate	17,000,000
Fire Legal Liability	500,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000/25,000
Educators Legal Liability	
Wrongful Acts Coverage Per Occurrence (No deductible)	15,000,000
Wrongful Acts Coverage Aggregate	15,000,000
Automobile Liability and Physical Damage	
Bodily Injury & Property Damage (Per Occurrence) (No deductible)	15,000,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000/25,000
Automobile Physical Damage (No deductible)	ACV
Garagekeepers Physical Damage (No deductible)	ACV (Maximum \$250,000)

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



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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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**B. Workers' Compensation**

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

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

**C. Medical Benefits**

The Service Center participates in the Mercer-Auglaize Area Schools Regional Council of Governments ("Council"), 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 Council for employee medical and dental insurance coverage. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all Council liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. Life insurance is available for employees who meet full-time requirements. This is provided by Metropolitan Educational Council.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS**

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the Service Center's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Service Center's obligation for this liability to annually required payments. The Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Service Center does receive the benefit of employees' services in exchange for compensation including pension.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The Service Center's contractually required contribution to SERS was \$179,682 for fiscal year 2017.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Service Center's contractually required contribution to STRS was \$431,711 for fiscal year 2017.

***Net Pension Liability***

The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Service Center's employer allocation percentage of the net pension liability is based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Employer contributions were determined based on the 14 percent employer rate and total member contributions from employer payroll reports for the year ended June 30, 2016:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 8,946,112	\$ 2,819,740	\$ 11,765,852
Proportion of the Net Pension Liability	0.02672634%	0.03852590%	

**Mercer County Educational Service Center  
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*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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***Actuarial Assumptions - SERS***

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The discount rate, assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability and mortality rates were also updated to more closely reflect actual experience.

**Mercer County Educational Service Center  
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*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Service Center's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Service Center's proportionate share of the net pension liability	\$ 3,733,161	\$ 2,819,740	\$ 2,055,170

**Actuarial Assumptions - STRS**

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
	<u>100.00 %</u>	<u>7.61 %</u>

\*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

***Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the Service Center's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Service Center's proportionate share of the net pension liability	\$ 11,888,655	\$ 8,946,112	\$ 6,463,902

***Changes Between Measurement Date and Report Date*** In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to Service Center's net pension liability is expected to be significant.

**NOTE 7 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.



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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Service Center's surcharge obligation was \$20,835.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Service Center's contributions for health care for the fiscal year ended June 30, 2015, was \$9,769. The full amount has been contributed for fiscal year 2015.

**B. State Teachers Retirement System**

Plan Description – The Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the Service Center did not contribute to health care in the last three fiscal years.

**NOTE 8 - OTHER EMPLOYEE BENEFITS**

The Service Center offers medical and dental insurance to all employees through the Mercer-Auglaize Area Schools Regional Council of Governments. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Governing Board. The Service Center provides life insurance to employees through Metropolitan Educational Council.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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**NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS**

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

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (“NOACSC”), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Allen, Paulding, Putnam, Mercer, and Van Wert Counties and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Raymond Burden, who serves as Director, 4277 East Road, Elida, Ohio 45807.

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

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

**C. State Support Team Region 6**

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

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

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

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

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The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from Gene Linton at the Northwestern Ohio Educational Research Council, Inc., 121 W. Main Street, Ashland, Ohio, 44805.

**NOTE 10 - INSURANCE PURCHASING POOLS**

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

The Service Center participates in the Schools of Ohio Risk Sharing Authority (“SORSA”), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA’s business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool’s administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

**B. Sheakley Uniservice, Inc. Workers’ Compensation Group Rating Program**

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

**C. Mercer-Auglaize Area Schools Regional Council of Governments**

The Mercer-Auglaize Area Schools Regional Council of Governments, (the “Council”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Chapter 167 of the Ohio Revised Code. The Council is established to provide employee welfare benefits as described in Section 501(c)(9) of the Internal Revenue Code for the benefit of employees of the member public school districts of the Council. The Council is a shared risk pool as defined by Government Accounting Standards Board (GASB) Statement No. 10 as amended by GASB Statement No. 30. It was formed to carry out a cooperative program for the provisions and administration of health, prescription drug and dental benefits for member public school district employees in accordance with the Council’s constitution and bylaws.

The Council is governed by a Council Governing Board (the “Board”) consisting of the superintendent of each member public school district or his/her designee. The Board is authorized to enter into agreements as deemed necessary to provide welfare benefit plans to the member public school districts. The Council consists of member public school districts. The Council’s current membership consists of eleven local school districts and two educational service centers. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

**NOTE 11 – FUND BALANCE**

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

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

	<u>General</u>	<u>Part B - IDEA</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Restricted for:				
Support Services	0	0	14,179	14,179
Committed for:				
Educational Activities	20,971	0	0	20,971
Future Severance Payments	40,328	0	0	40,328
Staff Wellness	0	0	752	752
Total Committed	<u>61,299</u>	<u>0</u>	<u>752</u>	<u>62,051</u>
Assigned for:				
Other Purposes	2,655	0	0	2,655
Instruction	4,202	0	0	4,202
Support Services	5,957	0	0	5,957
Total Assigned	<u>12,814</u>	<u>0</u>	<u>0</u>	<u>12,814</u>
Unassigned	<u>1,498,292</u>	<u>0</u>	<u>0</u>	<u>1,498,292</u>
 Total Fund Balance	 <u>\$ 1,572,405</u>	 <u>\$ 0</u>	 <u>\$ 14,931</u>	 <u>\$ 1,587,336</u>

**NOTE 12 – CONTINGENCIES AND OTHER COMMITMENTS**

**A. Grants**

The Service Center received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2017, if applicable, cannot be determined at this time.

**B. Litigation**

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

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

*Notes To The Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017  
(Continued)*

**C. School District Funding**

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the Service Center, which resulted in the Service Center receiving \$1,735. The financial statement impact was determined to be immaterial and is not reported as an asset or liability of the Service Center.

**NOTE 13 – COMPLIANCE**

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2017, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

**NOTE 14 – INTERFUND ACTIVITY**

During fiscal year 2017, the Service Center had the following Interfund activity:

	Advances In	Advances Out
Major Governmental Funds:		
General Fund	\$ 0	\$ 85,439
IDEA Part B	61,960	0
Other Governmental Funds:		
MECA Part-C Grant	174	0
Alternative Schools	765	0
Parent Mentor Grant	5,929	0
Title III	1,684	0
Preschool Grant	14,927	0
Total Advances	\$ 85,439	\$ 85,439

Advances were made during fiscal year 2017 from the General Fund to cover expenditures made by separate funds awaiting reimbursement by granting authorities. During fiscal year 2017, the Service Center had no transfers between separate funds.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<b>Federal Grantor/ Pass-Through Agency Program Titles</b>	<b>Federal CFDA Number</b>	<b>Disbursements</b>
<b>U.S. Department of Education</b>		
(Passed through the Ohio Department of Education)		
<i>Special Education Cluster:</i>		
Special Education Grants to States	84.027	\$798,973
Special Education Preschool Grants	84.173	54,814
Total Special Education Cluster		<u>853,787</u>
English Language Acquisition State Grants	84.365	44,977
(Passed through the Ohio Department of Health)		
Special Education-Grants for Infants and Families	84.181	1,635
		<u>900,399</u>
Total U.S Department of Education		<u>900,399</u>
Total Expenditures of Federal Awards		<u><u>\$900,399</u></u>

*See accompanying Notes to the Schedule of Expenditures Of Federal Awards*

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 C.F.R. 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Mercer County Educational Service Center (the Service Center's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Service Center, it is not intended to and does not present the financial position or changes in net position of the Service Center.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement, The Service Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

The Service Center applies for and administers grants on behalf of member school districts. The Service Center reports these grants on their Schedule of Expenditures of Federal Awards and they are subject to audit during the Service Center annual audit according to the Uniform Guidance. Awards which are reported by the Service Center which benefit member districts are as follows:

<b>DISTRICT</b>	<b>Award Amount IDEA Part B</b>	<b>Award Amount IDEA Early Childhood</b>
Coldwater Exempted Village School District		\$19,310
Fort Recovery Local School District	\$196,572	\$7,597
Marion Local School District	\$167,193	\$13,144
Parkway Local School District	\$231,954	\$7,354
St. Henry Consolidated Local	\$168,540	\$6,804
Total	<u>\$764,259</u>	<u>\$54,209</u>

**NOTE D – ADMINISTRATIVE AGENT**

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





# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, Mercer County, (the Service Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated November 14, 2018, wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-002 to be a material weakness.

**Compliance and Other Matters**

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

**Service Center's Response to Findings**

The Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. We did not subject the Service Center's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 14, 2018



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

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

We have audited the Mercer County Educational Service Center's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Mercer County Educational Service Center's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Service Center's major federal program.

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

The Service Center's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

Our responsibility is to opine on the Service Center's compliance for the Service Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Mercer County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402  
Phone: 937-285-6677 or 800-443-9274 Fax: 937-285-6688

[www.ohioauditor.gov](http://www.ohioauditor.gov)

**Report on Internal Control Over Compliance**

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

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

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

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 14, 2018

**MERCER COUNTY EDUCATIONAL SERVICE CENTER  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
2 C.F.R. § 200.515  
JUNE 30, 2017**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 C.F.R. § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 C.F.R. § 200.520?</b>	No

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

**FINDING NUMBER 2017-001**

**Noncompliance – Failure to File GAAP**

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

**Ohio Admin. Code § 117-2-03(B)** requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Service Center prepared its financial statements for fiscal year 2017 in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Service Center did not file GAAP statements in fiscal year 2017.

The Service Center should prepare its annual financial statements in accordance with GAAP to include assets, liabilities, deferred inflows/outflows, equity and the disclosures required to accurately and completely present the Service Center's financial condition.

**Officials' Response**

The ESC does not file GAAP statements due to the extensive cost of preparing the statements as well as the additional cost in auditing such statements. It is believed by both the treasurer and the board of education that the funds saved by using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.

**FINDING NUMBER 2017-002**

**Material Weakness – Failure to Reconcile Payroll Bank Account**

Cash is the asset most susceptible to theft and misappropriation. Monthly reconciliations between the bank and the book balances provide reasonable assurance that all receipts and expenditures have been correctly posted to the Service Center's books and have been correctly posted by the bank. The Service Center did not properly complete bank to book reconciliations for the payroll bank account during fiscal year ending June 30, 2017. The Service Center's monthly operating checking account bank reconciliations from the period of February 2016 through June 2017 contained a reconciling item listed as an outstanding transfer between the operating checking account and the payroll checking account. It was erroneously included, which caused the reconciled bank balances as of June 30, 2017 to be overstated by \$4,672. A majority of the variance noted was due to inaccuracies in recording payments made from the payroll bank account as expenditures in the USAS G/L accounting system. Of the variance noted, \$396 was unreconciled as of June 30, 2017. These items resulted in inaccurate bank reconciliations and financial information (i.e. USAS reports) provided to the Board of Education.

Also, by not properly reconciling the payroll bank account, the Service Center incurred negative bank account balances for several months during fiscal year 2017, in which the Service Center received overdraft fees totaling \$434 for the fiscal year.

**FINDING NUMBER 2017-002  
(Continued)**

Failure to properly record and reconcile all transactions in the USAS accounting system in a timely manner could lead to errors in the bank reconciliation, overdraft fees being assessed which not considered proper public purpose expenditures, inaccurate information being presented to the Board for decision making, and inaccurate financial reporting. Failure to identify, investigate, and correct reconciling errors could also lead to errors and irregularities occurring and not being detected in a timely manner.

The Service Center should implement procedures to verify that monthly bank reconciliations are prepared timely and correctly with little to no undocumented adjusting factors. Additionally, financial transactions should be entered into the Service Center's accounting system accurately and timely, and the Board of Education members should review and sign the bank reconciliations for each account each month as their acknowledgment of review and approval of the reconciliations.

**Officials' Response:**

Since the hiring of the new treasurer in October of 2017, the payroll bank account has been reconciled on a timely and accurate basis and will continue to be into the future. The cash reconciliations have always been presented to the board on a monthly basis; however, beginning November 2018 we will include copies of bank statement cover sheets for review and signature.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**None.**



# Mercer County Educational Service Center

441 East Market Street  
Celina, Ohio 45822

Office: (419) 586-6628 Fax: (419) 586-3377  
www.mercercountyesc.org

**Shelly Vaughn**  
Superintendent

**Kurt Wendel**  
Treasurer

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511 (b) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
<p style="text-align: center;">2016-001</p> <p>Began FYE 6/30/2004 and every FY since.</p>	<p>Ohio Rev. Code Section 117.38 &amp; Ohio Admin. Code Section 117-2-03(B) – Failure to prepare financial statements in accordance with GAAP</p>	<p>Not Corrected</p>	<p>Due to the additional cost of preparing and auditing GAAP statements, the treasurer and the Board of Education believe that the funds saved using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.</p> <p>Repeat at Audit Finding 2017-001</p>





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# Dave Yost • Auditor of State

**MERCER COUNTY EDUCATIONAL SERVICE CENTER**

**MERCER COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 4, 2018**