



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, as of June 30, 2006, and the respective changes in cash financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2007, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 8, 2007

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of the Mercer County Educational Service Center's (Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In 2006, General Receipts accounted for \$1,233,479 or 21% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$4,618,852 or 79% of total receipts of \$5,852,331.
- In 2006, total program disbursements were \$6,040,098.
- In 2006, net assets decreased in total by \$187,767 or 24%.

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

Basis of Accounting

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

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the 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 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements are reported on the cash basis of accounting, which reflects receipts and disbursements when cash is received or paid.

These two statements report the Service Center's *net assets* and *changes in those assets*. This change in net assets 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 Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, and operation and maintenance of plant.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 11. 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 are the General Fund and Part B - IDEA Fund.

Governmental Funds - Most 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 a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Reporting the Service Center's Fiduciary Responsibilities

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 13. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

The Service Center as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 1 provides a comparative summary of the Service Center's net assets for 2006 and 2005:

**Table 1
Net Assets – Cash Basis**

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$ 571,661	\$ 758,654
Total Assets	<u>\$ 571,661</u>	<u>\$ 758,654</u>
Net Assets		
Restricted for:		
Capital Projects	\$ 0	\$ 32
Other Purposes	24,652	20,481
Unrestricted	547,009	738,141
Total Net Assets	<u>\$ 571,661</u>	<u>\$ 758,654</u>

Table 2 shows the changes in net assets for fiscal years 2006 and 2005. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2006	2005
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 3,172,630	\$ 3,428,426
Operating Grants and Contributions	1,446,222	1,356,262
General Receipts		
Grants and Entitlements	1,100,413	1,179,403
Interest	12,954	4,176
Miscellaneous	120,712	122,214
Total Receipts	<u>5,852,331</u>	<u>6,090,481</u>
Program Disbursements		
Instruction	2,584,355	2,397,438
Support Services	2,481,398	2,810,587
Capital Outlay	0	18,594
Debt Service	31,096	27,475
Intergovernmental Disbursements	943,249	866,149
Total Disbursements	<u>6,040,098</u>	<u>6,120,243</u>
Decrease in Net Assets	<u>\$ (187,767)</u>	<u>\$ (29,762)</u>

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Governmental Activities

Several receipt sources fund the Service Center's governmental activities with school foundation program being the largest contributor. School foundation provided \$4.0 million in fiscal year 2006, and \$4.1 million during 2005. School foundation receipts include contract receipts from local school districts. Additional charges for services are received directly from local school districts for services performed. General receipts from grants and entitlements are also a large receipts generator. With the combination of charges for services and operating grants at over 76% of expenses in governmental activities, the Service Center monitors both of these receipt sources very closely for fluctuations.

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 unrestricted State grants and entitlements.

**Table 3
Governmental Activities**

	2006		2005	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 2,584,355	\$ 553,198	\$ 2,397,438	\$ 258,277
Support Services:				
Pupil and Instructional Staff	1,826,129	313,962	2,063,932	391,507
Board of Education, Administration				
Fiscal and Business	585,180	508,335	545,174	476,797
Operation and Maintenance of Plant	56,137	10,426	74,283	28,829
Pupil Transportation	0	0	117,223	113,433
Central	13,952	13,952	9,975	9,652
Capital Outlay	0	0	18,594	17,786
Debt Service	31,096	31,096	27,475	27,475
Intergovernmental Disbursements	943,249	(9,723)	866,149	11,799
Total	\$ 6,040,098	\$ 1,421,246	\$ 6,120,243	\$ 1,335,555

In 2006, instruction and student support services comprise 73% of governmental program disbursements. Board of Education, administration, fiscal and business charges were 10%. Intergovernmental disbursements account for 16% and all other disbursements accounted for less than 1%.

General Fund Budgeting Highlights

The Educational Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as the Service Center does not have local tax levies financing its operations. However, the Governing Board annually adopts an expenditure budget, which sets the spending authority, or appropriations, for each fund for the ensuing fiscal year, and is set at the fund 2 digit function 1 digit object level. Revenues are not budgeted by the Governing Board.

During the course of fiscal year 2006, the Service Center did not significantly modify its General Fund appropriations. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, actual expenditures on the budget basis (cash outlays plus encumbrances) for fiscal year 2006 were \$4.65 million, approximately \$900,000 less than what was budgeted during the year. Management's efforts to contain operating costs explain why the full appropriation amount was not utilized.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Debt Administration

At June 30, 2006, the Service Center had no long-term debt outstanding. See note 11 for additional details.

Current Issues

The Mercer County Educational 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, effective July 1, 2005, which had a negative impact on the Service Center. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

Contacting the Service Center's Financial Management

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

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EDUCATIONAL SERVICE CENTER
MERCER COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$571,661</u>
Total Assets	<u><u>571,661</u></u>
Net Assets	
Restricted for:	
Other Purposes	24,652
Unrestricted	<u>547,009</u>
Total Net Assets	<u><u>\$571,661</u></u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

		Program Receipts		Net (Disbursement) Receipt and Changes in Net Assets
	Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Current:				
Instruction:				
Regular	\$360,146	\$87,003	\$270,555	(\$2,588)
Special	2,224,209	1,673,599		(550,610)
Support services:				
Pupils	1,556,850	1,189,102	85,941	(281,807)
Instructional staff	269,279	212,749	24,375	(32,155)
Board of education	92,318			(92,318)
Administration	379,932		76,845	(303,087)
Fiscal	93,093			(93,093)
Business	19,837			(19,837)
Operation and Maintenance of Plant	56,137	10,177	35,534	(10,426)
Central	13,952			(13,952)
Debt service				
Principal	30,843			(30,843)
Interest	253			(253)
Intergovernmental	943,249		952,972	9,723
Total Governmental Activities	\$6,040,098	\$3,172,630	\$1,446,222	(1,421,246)
General Receipts				
Grants and Entitlements not Restricted to Specific Programs				1,100,413
Interest				12,954
Miscellaneous				120,112
				1,233,479
Total General Receipts				1,233,479
Change in Net Assets				(187,767)
Net Assets Beginning of Year				759,428
Net Assets End of Year				\$571,661

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$517,526		\$24,652	\$542,178
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	29,483			29,483
Total Assets	<u>547,009</u>		<u>24,652</u>	<u>571,661</u>
Fund Balances				
Reserved for:				
Encumbrances	4,984		3,661	8,645
Unclaimed Monies	29,483			29,483
Unreserved, Undesignated, Reported in:				
General Fund	512,542			512,542
Special Revenue Funds			20,991	20,991
Total Fund Balances	<u>\$547,009</u>	<u>\$0</u>	<u>\$24,652</u>	<u>\$571,661</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Part B - IDEA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts				
Intergovernmental	\$1,100,413	\$878,987	\$567,234	\$2,546,634
Contract Services	2,979,292			2,979,292
Interest	12,954			12,954
Tuition and Fees	173,961		9,200	183,161
Rent	10,177			10,177
Miscellaneous	119,117			119,117
Total Receipts	<u>4,395,914</u>	<u>878,987</u>	<u>576,434</u>	<u>5,851,335</u>
Disbursements				
Current:				
Instruction:				
Regular	110,764		249,382	360,146
Special	2,224,209			2,224,209
Support Services:				
Pupils	1,485,589		71,261	1,556,850
Instructional Staff	241,285		27,994	269,279
Board of Education	92,318			92,318
Administration	309,987		69,945	379,932
Fiscal	93,093			93,093
Business	19,837			19,837
Operation and Maintenance of Plant	26,889		29,248	56,137
Central	13,952			13,952
Debt Service:				
Principal	30,843			30,843
Interest	253			253
Intergovernmental		878,987	64,262	943,249
Total Disbursements	<u>4,649,019</u>	<u>878,987</u>	<u>512,092</u>	<u>6,040,098</u>
Excess of Receipts Over (Under) Disbursements	<u>(253,105)</u>		<u>64,342</u>	<u>(188,763)</u>
Other Financing Sources (Uses)				
Advances In	67,400		600	68,000
Refund of Prior Year Expenditures			596	596
Other Financing Sources	400			400
Advances Out	(6,600)		(61,400)	(68,000)
Total Other Financing Sources (Uses)	<u>61,200</u>		<u>(60,204)</u>	<u>996</u>
Net Change in Fund Balances	(191,905)		4,138	(187,767)
Fund Balance at Beginning of Year	<u>738,914</u>		<u>20,514</u>	<u>759,428</u>
Fund Balance at End of Year	<u>\$547,009</u>	<u>\$0</u>	<u>\$24,652</u>	<u>\$571,661</u>

See accompanying notes to the financial statements.

EDUCATIONAL SERVICE CENTER
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
JUNE 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,870</u>
Total Assets	<u><u>16,870</u></u>
Net Assets	
Held for Other Governments	<u>16,870</u>
Total Net Assets	<u><u>\$16,870</u></u>

See accompanying notes to the financial statements.

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**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

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

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

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

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

The Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the West Central Ohio Special Education Regional Resource Center, the Northwestern Ohio Educational Research Council, the Schools of Ohio Risk Sharing Authority, the OASBO Workers' Compensation Group Rating Plan, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 12 and 13 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Service Center's accounting policies.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

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

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

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

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

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets-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 Assets presents the financial condition of the governmental activities of the Service Center at year-end. The statement of activities presents a comparison between disbursements and program receipts for each program or function of the Service Center's governmental activities. 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 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 taxes, intergovernmental receipts, and other non-exchange receipts.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

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 proprietary. An emphasis is placed on major funds within these categories. The Service Center has only governmental funds. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

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

The funds of the financial reporting entity are described below:

3. Governmental Funds / Governmental Activities

Governmental funds are those through which most governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2006:

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

Part B IDEA Fund - The Part B - IDEA Fund is a special revenue fund that provides special education and resources to children.

4. Fiduciary Fund Types

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

C. Budgetary Process

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

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations:

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

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

2. Encumbrances:

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

3. Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

Money market mutual funds (including STAR Ohio) are recorded by the funds at cost. Investment earnings are allocated as authorized by State statute based upon Service Center policy.

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 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 Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2006 were \$12,954.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Restricted Assets

Assets are reported as restricted when limitations on their use change 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. Unclaimed monies that have a legal restriction on their use are reported as restricted.

F. Capital Assets

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

G. Accumulated Leave

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

H. Long-term Debt

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

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants are recorded as receipt 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 2006, these funds included the Special Education Grants to States (Part B-IDEA) and Special Education Preschool Grant.

L. Interfund Receivables/Payables

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 operating 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.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. At June 30, 2006, the General Fund had unpaid interfund cash advances, in the amount of \$600 for a short-term loan made to the Preschool Grant Fund. This is expected to be repaid within one year.

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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Equity Classifications

1. Government-Wide Statements

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

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

2. Fund Financial Statements

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

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. All taxes are classified as general receipt even if restricted for a specific purpose.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 46, "Net Assets Restricted by Enabling Legislation". GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

4. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets / fund balances, and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

A. Deposits

At June 30, 2006, the carrying amount of the Service Center's deposits was \$500,088 and the bank balance was \$649,330. Of the bank balance, \$200,000 was covered by federal depository insurance and \$449,330 was uninsured and 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.

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

Investments are reported at fair value. As of June 30, 2006, the Service Center's only investment included \$88,368 in STAR Ohio. The Service Center's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The Service Center has no investment policy dealing with investment credit risk beyond the requirements of State statute. STAR Ohio has been rated as AAAM by Standard & Poor.

Concentration Risk - The Service Center places no limit on the amount they may invest in any one issuer. More than 5 percent of the Service Center's investments are in STAR Ohio. These investments include 100.00% of the Service Center's total investments for fiscal year 2006.

6. 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 contract services. The second source is State foundation distributions.

The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

6. PRIMARY RECEIPT SOURCES (Continued)

A. State Foundation Distributions - Amounts Paid by the State

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

These amounts are recorded as unrestricted grants-in-aid and reported as intergovernmental revenue.

B. State Foundation Distributions

1. Amounts Paid by the Local School Districts

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

These amounts are all reported as contract services.

2. Amounts Paid under Contract by Local School Districts

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

These amounts also represent contract services.

7. 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. During fiscal year 2006, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

7. RISK MANAGEMENT (Continued)

Property (\$1,000 deductible)	\$1,484,955
Employee Dishonesty	50,000
Forgery or Alteration	50,000
Computer Fraud	50,000
Theft, Disappearance and Destruction	50,000
General Liability	
Bodily Injury and Property Damage	2,000,000
Personal Injury/Advertising Liability	2,000,000
Products/Completed Operations	2,000,000
Per Campus Annual Aggregate	2,000,000
General Annual Aggregate	4,000,000
Fire Legal Liability	500,000
Medical Payments - Occurrence/Aggregate	5,000/25,000
Educators Legal Liability - Errors or Omissions	2,000,000
Automobile Liability and Physical Damage	
Owned/Leased Vehicles (Per Occurrence)	2,000,000
Hired and Non-owned Liability	Incl
Medical Payments (Occurrence/Aggregate)	5,000/25,000
Uninsured/Underinsured Motorist	1,000,000
Automobile Physical Damage	100,000
Garagekeepers Physical Damage ACV to maximum	100,000

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

For fiscal year 2006, 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.

B. Workers' Compensation

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

C. Medical Benefits

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. PENSION PLANS

A. State Teachers Retirement System

The Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting their website at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. In the DC Plan, a member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary. The Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$308,016, \$359,580, and \$379,043, respectively. Contributions to the DC and Combined Plans for fiscal year 2006 were \$565 made by the Service Center and \$5,962 made by the plan members.

B. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or by visiting their website at www.ohsers.org.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

8. PENSION PLANS (Continued)

Plan members must contribute 10 percent of their annual covered salary and the Service Center must contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution funds pension obligations with the remainder used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal years 2005 and 2004, 10.57 percent and 9.09 percent was used to fund pension obligations, respectively. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$108,106, \$106,783, and \$88,944 respectively.

9. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

At June 30, 2006 (the latest information available), the employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 were \$158,751,207. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants eligible to receive benefits.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

10. OTHER EMPLOYEE BENEFITS

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

11. DEBT OBLIGATIONS

The changes in the Service Center's debt obligations during fiscal year 2006 were as follows:

	Interest Rate	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Loan - Vehicle	6.5%	\$ 5,843	\$ 0	\$ 5,843	\$ 0
Loan - Building	0	25,000	0	25,000	0
Total Debt Obligations		<u>\$ 30,843</u>	<u>\$ 0</u>	<u>\$ 30,843</u>	<u>\$ 0</u>

Loan Payable - Vehicle - During fiscal year 2002, the Service Center refinanced their vehicle loan due to lower interest rates. The original loan, at an interest rate of 7.24 percent and with an outstanding balance of \$11,813, was refinanced on December 14, 2002, in the amount of \$11,178, at an interest rate of 6.5 percent. The loan was originally issued for a three year period, with a final maturity during fiscal year 2006. On August 15, 2005, the term of the loan was increased by 20 months, moving the maturity date to March 13, 2007 but was paid off in full early on May 1, 2006.

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

12. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

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

B. Mercer County Local Professional Development Committee

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. West Central Ohio Special Education Regional Resource Center

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

D. Northwestern Ohio Educational Research Council, Inc.

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

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

13. INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

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

B. OASBO Workers' Compensation Group Rating Plan

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

13. INSURANCE PURCHASING POOLS (Continued)

C. Mercer Auglaize Employee Benefit Trust

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

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler, JM Consulting, 3547 Beechway Blvd., Toledo, Ohio 43614.

14. INTERFUND ADVANCES

During fiscal year 2006, the Education Service Center made advances between funds as follows:

	<u>Advances-In</u>	<u>Advances-Out</u>
Governmental:		
General Fund	\$ 67,400	\$ 6,600
All Other Governmental Funds	600	61,400
Total	<u>\$ 68,000</u>	<u>\$ 68,000</u>

15. CONTINGENCIES

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2006.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Grantor Pass Through Agency Program Titles	Federal CFDA Number	Project Number	Receipts	Disbursements
U.S. Department of Education				
(Passed through the Ohio Department of Education)				
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	84.027	048546-6BSF-2006	\$878,987	\$878,987
Special Education - Preschool Grants (IDEA Preschool)	84.173	048546-PGS1-2005	17,343	7,048
		048546-PGS1-2006	<u>56,642</u>	<u>57,215</u>
Total Special Education - Preschool Grants			<u>73,985</u>	<u>64,263</u>
Total Special Education Cluster			952,972	943,250
21st Century Community Learning Centers Grant	84.287	048546-T1S1-2005	76,307	34,671
		048546-T1S1-2006	<u>281,250</u>	<u>274,757</u>
Total 21st Century Community Learning Centers Grant			<u>357,557</u>	<u>309,428</u>
(Passed through the Ohio School Facility Commission)				
Federal Emergency Repair Program/School Innovation, IDEA and Technology Program	84.352A		<u>6,468</u>	
Total Federal Financial Assistance			<u><u>\$1,316,997</u></u>	<u><u>\$1,252,678</u></u>

See accompanying Notes to the Schedule of Federal Awards Expenditures.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

NOTE C - ADMINISTRATIVE AGENT

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Receipts				
Intergovernmental			\$ 1,100,413	
Contract Services			2,979,292	
Interest			12,954	
Tuition and Fees			173,961	
Rent			10,177	
Miscellaneous			119,117	
Total Receipts			<u>4,395,914</u>	
Disbursements				
Current:				
Instruction:				
Regular	\$123,010	\$139,510	110,839	\$28,671
Special	2,740,231	2,665,231	2,224,346	440,885
Support Services:				
Pupils	1,669,693	1,724,693	1,485,823	238,870
Instructional Staff	251,964	263,064	241,542	21,522
Board of Education	96,053	100,553	92,318	8,235
Administration	341,207	365,207	313,808	51,399
Fiscal	90,575	100,075	93,113	6,962
Business	22,102	22,102	19,837	2,265
Operation and Maintenance of Plant	37,997	37,997	27,329	10,668
Pupil Transportation	110,000	84,000		84,000
Central	12,500	14,500	13,952	548
Debt Service:				
Principal	33,994	34,994	30,843	4,151
Interest	300	300	253	47
Total Disbursements	<u>5,529,626</u>	<u>5,552,226</u>	<u>4,654,003</u>	<u>898,223</u>
Excess of Receipts Over (Under) Disbursements			<u>(258,089)</u>	
Other Financing Sources (Uses)				
Advances In			67,400	
Other Financing Sources			400	
Advances Out			<u>(6,600)</u>	
Total Other Financing Sources (Uses)			<u>61,200</u>	
Net Change in Fund Balances			(196,889)	
Fund Balance at Beginning of Year			728,965	
Prior Year Encumbrances Appropriated			<u>9,949</u>	
Fund Balance at End of Year			<u><u>\$542,025</u></u>	

See accompanying notes to the required supplementary information.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
PART B - IDEA FUND
OR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget (Over) Under
Receipts				
Intergovernmental			\$878,987	
Total Receipts			878,987	
Disbursements				
Current:				
Instruction:				
Special	\$510,400	532,826	507,826	\$25,000
Support Services:				
Pupils	367,720	346,161	371,161	(25,000)
Total Disbursements	878,120	878,987	878,987	0
Excess of Receipts Over (Under) Disbursements			0	
Net Change in Fund Balances			0	
Fund Balance at Beginning of Year			0	
Fund Balance at End of Year			0	
<i>See accompanying notes to the required supplementary information.</i>			\$0	

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE SCHEDULES OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BASIS FUND BALANCE – BUDGET AND ACTUAL – BUDGET BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

A. BASIS OF BUDGETING

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

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

B. GENERAL BUDGET POLICIES

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

The primary level of budget control established by the Governing Board is at the fund/function/object level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of a fund must be approved by resolution of the Governing Board. During fiscal year 2006 there were two modifications to the appropriation budget approved by the Governing Board. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts.

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

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

The Schedules of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balance - Budget and Actual for the General Fund and major special revenue Part B IDEA Fund are presented as supplementary information to provide a meaningful comparison of actual results with the original and final budgeted expenditures.

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Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2006, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated March 8, 2007, wherein, we noted the Service Center uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Service Center's management dated March 8, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002. In a separate letter to the Service Center's management dated March 8, 2007, we reported a matter related to noncompliance we deemed immaterial.

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Educational Service Center
Mercer County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

March 8, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center, Mercer County, (the Service Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the Service Center's major federal programs. The Service Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated March 8, 2007.

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

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

Mary Taylor, CPA
Auditor of State

March 8, 2007

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2006-001

FINDING FOR RECOVERY - REPAID UNDER AUDIT

Per the Service Center's policy, Governing Board resolution and Superintendent's contract, the Treasurer, in error, issued an overpayment to Eugene Linton, retired Superintendent, for accrued and unused vacation as part of the severance payment. Board resolution 11-05-192 approved the payment of up to 5 unused vacation days with the exact number of days not to be determined until the transition was completed. Eugene Linton's attendance calendar for the 2005-2006 school year documents 5 accrued and unused vacation days carried over at September 1, 2005; in addition to accruing 8.33 days between August 1 and December 30, 2005, (1 2/3 days for 5 months).for a total of 13.33 accrued vacation days between August 1, 2005 and December 30, 2005. Eugene Linton's vacation leave forms document using 10.5 vacation days between September 1 and December 30, 2005, leaving a balance of unused vacation days of 2.83. The portion of the severance payment calculation regarding accrued and unused vacation at a daily rate of pay of \$393.64 was calculated at 5 days (\$1,968.20), when the actual unused balance was 2.83 days (\$1,114.00). The error resulted in an overpayment of \$854.20.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered, for money illegally expended, against Eugene Linton, retired Superintendent, and Mary Brandon, Treasurer, jointly and severally, in the amount of \$854.20, and in favor of Mercer County Educational Service Center's general fund.

Upon notification by the Auditor of States' office, Eugene Linton, retired Superintendent, repaid the Service Center by issuing a personal check in the amount of \$854.20 on February 12, 2007, which was deposited in the General Fund on receipt #700152.

Official's Response:

The finding was promptly repaid to the Service Center by Eugene Linton when this severance computation error was brought to his attention.

FINDING NUMBER 2006-002

NONCOMPLIANCE CITATION

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

Ohio Adm. Code Section 117-2-03 (B) requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Service Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

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

**FINDING NUMBER 2006-002
(Continued)**

Official's Response:

The Governing Board of the Educational Service Center (ESC) discussed GAAP reporting at numerous Board meetings and unanimously decided against reporting GAAP. The ESC instead does OCBOA (GAAP look-a-like) reporting which is more cost effective. Since school funding continues to be cut and the Ohio Legislature is not following the ruling of the Ohio Supreme Court regarding school funding decision, the Board felt the need to eliminate costs where it can without being a detriment to the children and taxpayers we serve.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC 117.38 and OAC 117-2-03 (B) – The Service Center filed cash basis financial statements rather than the required gaap statements.	No	See Finding Number 2006-002



Mary Taylor, CPA
Auditor of State

EDUCATIONAL SERVICE CENTER

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 19, 2007**