



OHIO AUDITOR OF STATE
KEITH FABER



**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Midwest Regional Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, Ohio 43311

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, Ohio (the Center), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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www.ohioauditor.gov

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, Ohio, as of June 30, 2018, and the respective changes in modified cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplementary Information

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

The Budgetary Comparison Schedule – General Fund, is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 19, 2019

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 6,722,846
Total assets.	6,722,846
 Net cash position:	
Restricted for:	
Locally funded programs	134,540
State funded programs.	9,397
Alternative schools	365,718
Other purposes	4,113
Unrestricted	6,209,078
Total net cash position.	\$ 6,722,846

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Cash</u>	<u>Program Cash Receipt</u>		<u>Net (Disbursements)</u>
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Receipts and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in Net</u>
				<u>Cash Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 481,082	\$ -	\$ 392,329	\$ (88,753)
Special	3,220,710	2,964,233	206,281	(50,196)
Vocational	18,505	-	17,377	(1,128)
Support services:				
Pupil	2,405,037	2,331,812	60,832	(12,393)
Instructional staff	1,014,958	576,506	464,601	26,149
Board of education	102,483	-	-	(102,483)
Administration	891,916	828,368	208,149	144,601
Fiscal	448,168	504,256	-	56,088
Operations and maintenance	86	-	-	(86)
Pupil transportation	43,234	1,470	-	(41,764)
Central	128,829	124,372	1,800	(2,657)
Extracurricular activities	6,552	2,462	3,681	(409)
Debt service:				
Principal retirement	8,099	-	-	(8,099)
Interest and fiscal charges	2,221	-	-	(2,221)
Total governmental activities	<u>\$ 8,771,880</u>	<u>\$ 7,333,479</u>	<u>\$ 1,355,050</u>	<u>(83,351)</u>

General cash receipts:

Grants and entitlements not restricted	
to specific programs	482,669
Investment earnings	54,338
Miscellaneous	6,995
Total general cash receipts	<u>544,002</u>
 Change in net cash position	 460,651
 Net cash position at beginning of year	 <u>6,262,195</u>
 Net cash position at end of year	 <u>\$ 6,722,846</u>

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 5,688,963	\$ 1,033,883	\$ 6,722,846
Total assets	\$ 5,688,963	\$ 1,033,883	\$ 6,722,846
Fund cash balances:			
Nonspendable:			
Unclaimed monies	\$ 4,113	\$ -	\$ 4,113
Restricted:			
Alternative schools.	-	365,718	365,718
Other purposes.	-	143,937	143,937
Committed:			
Other purposes.	-	524,228	524,228
Assigned:			
Student instruction	41,791	-	41,791
Student and staff support.	311,220	-	311,220
Unassigned	5,331,839	-	5,331,839
Total cash fund balances	\$ 5,688,963	\$ 1,033,883	\$ 6,722,846

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Tuition.	\$ 3,831,204	\$ 9,561	\$ 3,840,765
Earnings on investments	54,338	-	54,338
Extracurricular.	5,855	-	5,855
Contributions and donations	43,015	19,825	62,840
Contract services.	3,095,098	147,435	3,242,533
Other local revenues	196,523	56,985	253,508
Intergovernmental	482,669	1,290,023	1,772,692
Total cash receipts	<u>7,708,702</u>	<u>1,523,829</u>	<u>9,232,531</u>
Cash disbursements:			
Current:			
Instruction:			
Regular.	126,454	354,628	481,082
Special	2,852,191	368,519	3,220,710
Vocational	-	18,505	18,505
Support services:			
Pupil	2,328,657	76,380	2,405,037
Instructional staff	596,559	418,399	1,014,958
Board of education	102,483	-	102,483
Administration	644,789	247,127	891,916
Fiscal	448,168	-	448,168
Operations and maintenance	86	-	86
Pupil transportation	43,234	-	43,234
Central	126,129	2,700	128,829
Extracurricular activities.	6,436	116	6,552
Debt service:			
Principal retirement.	8,099	-	8,099
Interest and fiscal charges	2,221	-	2,221
Total cash disbursements.	<u>7,285,506</u>	<u>1,486,374</u>	<u>8,771,880</u>
Excess of receipts over disbursements.	<u>423,196</u>	<u>37,455</u>	<u>460,651</u>
Other financing sources (uses):			
Advances in	25,176	12,984	38,160
Advances (out)	<u>(12,984)</u>	<u>(25,176)</u>	<u>(38,160)</u>
Total other financing sources (uses)	<u>12,192</u>	<u>(12,192)</u>	<u>-</u>
Net change in fund cash balances.	435,388	25,263	460,651
Fund cash balances at beginning of year.	<u>5,253,575</u>	<u>1,008,620</u>	<u>6,262,195</u>
Fund cash balances at end of year.	<u>\$ 5,688,963</u>	<u>\$ 1,033,883</u>	<u>\$ 6,722,846</u>

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust	Investment Trust	Agency
Assets:			
Equity in pooled cash and cash equivalents	\$ 50,195	\$ 41,689	\$ 16,236
Investments (stock)	15,452	15,452	-
Total assets.	65,647	57,141	\$ 16,236
Liabilities:			
Due to others.	-	-	\$ 16,236
Total liabilities	-	-	\$ 16,236
Net cash position:			
Held in trust for scholarships	65,647	-	
Net cash assets available for pool participants.	-	57,141	
Total net cash position.	\$ 65,647	\$ 57,141	

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private Purpose Trust	Investment Trust
Additions:		
Interest	\$ 9,291	\$ 9,291
Gifts and contributions	2,575	-
Total additions.	11,866	9,291
Deductions:		
Distributions to participants.	-	4,000
Scholarships awarded	7,200	-
Total deductions.	7,200	4,000
Change in net cash position	4,666	5,291
Net cash position at beginning of year. . .	60,981	51,850
Net cash position at end of year	\$ 65,647	\$ 57,141

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - DESCRIPTION OF THE ENTITY

The Midwest Regional Educational Service Center (the "Center") is a political subdivision of the State of Ohio. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On March 4, 2014 the Shelby, Logan and Hardin Educational Service Centers approved a merger, which resulted in the Midwest Regional Educational Service Center. The Center began operations on July 1, 2014.

The Center supplies supervisory, special education, administrative, and other services to member school districts. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Board consists of 7 members elected by the voters. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 59 non-certified and 74 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the Center:

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 26 school districts, 2 career centers, 3 educational service centers, 3 community schools, and 3 parochial schools. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statements Nos. 14 and 61, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

The SOEPC is a purchasing cooperative made up of over 130 school districts and boards of developmental disabilities in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are paid primarily from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Logan County Family and Children First Council

The Family and Children First Council provides services to multi-need youth in Logan County. Members of the council include but are not limited to the Logan County Board of Developmental Disabilities, Mental Health Board, Logan County Child Support Enforcement Agency, Alcohol, Drug and Mental Health Service Board, Logan County Head Start, Logan County Board of Health, Logan County Human Services, Midwest Regional Educational Service Center and the Ohio Department of Youth Services.

The operation of the Council is controlled by an advisory committee, which consists of a representative from each agency. Funding comes mainly from the State of Ohio. Financial information can be obtained from Debbie Holycross, Executive Director, 1973 State Route 47 West, Bellefontaine, Ohio 43311.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Logan County Educational Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Midwest Regional Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Eric Tom, who serves as Managing Director, 121 S. Opera Street, Bellefontaine, Ohio 43311.

Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision over the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. The District has two Board members on the career center's Board. To obtain financial information write to the Ohio Hi-Point Joint Vocational School District, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

Upper Valley Career Center

The Upper Valley Career Center is a distinct political subdivision over the State of Ohio. The Career Center is operated under the direction a Board consisting of eleven representatives who are members of the Boards of Education of the participating school districts. One member is appointed from each of the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following City School Districts: Piqua, Sidney and Troy. The Center has two Board members on the career center's Board. To obtain financial information write to the Upper Valley Career Center, Anthony Fraley, who serves as Treasurer, at 8811 Career Drive, Piqua, Ohio 45356.

PUBLIC ENTITY RISK POOLS

Logan County School Employee Consortium

The Center participates in the Logan County School Employee Consortium (the Consortium); a public entity shared risk pool consisting of one educational service center, one joint vocational school district, and three local school districts. The Center pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. To obtain financial information write to Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Ohio School Boards Association Workers' Compensation Group Rating Plan

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council LFP (EPC-LFP)

The Center participates in the Southwestern Ohio Educational Purchasing Council LFP (Program), an insurance purchasing pool consisting of fifty-one school districts. The intent of the Program is to achieve the benefit of a reduced premium for the Center for its property and liability insurance by virtue of its grouping and representation with other participants in the Program.

The Program's business and affairs are conducted by an Executive Council of nine participation school administrators. Participation in the Program is by written application subject to acceptance by the Executive Council and the payment of an annual premium. The Administrator of the Program is Public Entity Marsh which coordinates management, administration, claims management, and actuarial studies of the Program. Insurance premiums are paid to the Purchasing Council. Financial information can be obtained from the EPC-LFP, 303 Corporate Center Dr., Suite 208, Vandalia, OH 45377.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the Center chooses to prepare its financial statements and notes on the modified cash basis of accounting. The modified cash basis of accounting is a comprehensive basis of accounting other than GAAP.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

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

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

C. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses on the sources, uses and balances of the current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following is the Center's major governmental fund:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the Center are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for a stock bequest benefiting Sidney City School District. The Center also acts in a trustee capacity as an agent for other organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for resources held for other organizations.

D. Basis of Presentation

Government-wide Financial Statements - The statement of net position - modified cash basis and the statement of activities - modified cash basis display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Center. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the Center.

Fund Financial Statements - The Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at a more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgetary Process

Although not legally required, the Center adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local Board of Education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds with the exception of the general fund, which is at the one digit object code. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

F. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the 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.

During fiscal year 2018, investments were limited to common stock (see below), negotiable certificates of deposit and the State Treasury Asset Reserve of Ohio (STAR Ohio). Nonparticipating investment contracts such as certificates of deposit are reported at cost.

During fiscal year 2018, the Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Center measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (See Note 6). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$54,338, which includes \$11,389 assigned from other Center funds.

G. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Inventory and Prepaid Items

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

I. Unpaid Vacation and Sick Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid.

K. Pensions/Other Postemployment Benefits (OPEB)

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

M. Fund Cash Balance

The Center reports classifications of fund cash balance based on the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Center's highest level of decision-making authority, the Governing Board.

Assigned - amounts that are constrained by the Center's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the Center's formal purchasing procedure by the Treasurer. Through the Center's purchasing policy, the Governing Board has given the Treasurer the authority to constrain monies for intended purposes.

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

The Center applies restricted resources first when a disbursement is incurred for purposes for which restricted and unrestricted fund cash balance is available. The Center considers committed, assigned, and unassigned fund cash balances, respectively, to be spent when disbursements are incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

N. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available.

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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Flows of cash or goods from one fund to another with a requirement for repayment are reported as interfund advances. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements.

A schedule of the Center's interfund transactions is presented in Note 5.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

Q. Fair Market Value

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a modified 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 position / fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

B. Change in Accounting Principles

For fiscal year 2018, the Center has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the Center's postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Center.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Center.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Center.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 five-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.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities 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 items (1 or 2) above and repurchase agreements secured by such obligations, provided that investments in such securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year-end, the Center had \$175 in undeposited cash on hand which is included on the financial statements as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all Center deposits was \$5,144,305. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2018, \$2,310,289 of the Center’s bank balance of \$5,156,311 was exposed to custodial risk as discussed below, while \$2,846,022 was covered by FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Center and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2018, certain Center financial institutions did not participate in the OPCS while certain other financial institutions did participate in the OPCS. Those financial institutions that did participate were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Center to a successful claim by the FDIC.

C. Investments

As of June 30, 2018, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Investment Maturities</u>				<u>Indefinite</u>
			<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	
Stock	\$ 30,904	\$ 501,292	\$ -	\$ -	\$ -	\$ -	\$ 501,292
Negotiable CD's	1,175,000	1,171,447	349,416	348,410	349,429	124,192	-
STAR Ohio	511,486	511,486	511,486	-	-	-	-
Total	\$ 1,717,390	\$ 2,184,225	\$ 860,902	\$ 348,410	\$ 349,429	\$ 124,192	\$ 501,292

The weighted average maturity of investments is 0.46 years.

The Center’s investments in stock are valued using quoted market prices in active markets (Level 1 inputs). The Center’s investments in negotiable certificates of deposit are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The stock portfolio is in the name of the Center and is not subject to custodial credit risk. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: The Center's stocks were rated ranging from AA+ to B-, Aaa to B3, and A- to B by Standard & Poor's, Moody's Investor Services, and Fitch Ratings, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center's investment policy does not further limit its investment choices.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2018:

<u>Investment type</u>	<u>Market Value</u>	<u>% to Total</u>
Stock	\$ 501,292	22.95
Negotiable CD's	1,171,447	53.63
STAR Ohio	<u>511,486</u>	<u>23.42</u>
Total	<u>\$ 2,184,225</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments reported in the note above to cash as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note</u>	<u>Carrying</u>
	<u>Value</u>
Carrying amount of deposits	\$ 5,144,305
Investments	1,717,390
Cash on hand	<u>175</u>
Total	<u>\$ 6,861,870</u>

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per statement of net position</u>	<u>Carrying Value</u>
Governmental activities	\$ 6,722,846
Private-purpose trust funds	65,647
Investment trust fund	57,141
Agency fund	<u>16,236</u>
Total	<u>\$ 6,861,870</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions for the year ended June 30, 2018, consisted of the following, as reported on the fund financial statements:

<u>Advances from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 12,984
 <u>Advances from nonmajor governmental funds to:</u>	
General fund	<u>25,176</u>
 Total	 <u>\$ 38,160</u>

The primary purpose of the advances to the governmental funds is to cover costs in grant funds where the requested project cash requests were not received by June 30. These advances will be repaid once the anticipated revenues are received. All outstanding advances are expected to be repaid within one year.

The advances to the general fund represent repayment of prior period advances made from the general fund to nonmajor governmental funds.

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, no advances are reported on the statement of activities.

NOTE 6 - INVESTMENT POOL

The Center maintains stock that was bequeathed to the Center and to Sidney City School District. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in an investment trust fund.

Condensed cash basis financial information for the investment pool follows:

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 6 - INVESTMENT POOL - (Continued)

Statement of Net Position
June 30, 2018

Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,830,966
Investments	<u>30,904</u>
<i>Total Assets</i>	<u>6,861,870</u>
 Net Position Held in Trust for Pool Participants	
Internal Portion	6,804,729
External Portion	<u>57,141</u>
<i>Total Net Position Held in Trust for Pool Participants</i>	<u>\$ 6,861,870</u>

Statement of Changes in Net Position
For Fiscal Year Ended June 30, 2018

Additions	
Capital Transaction	\$ 473,336
Interest	<u>72,920</u>
<i>Total Additions</i>	<u>546,256</u>
 Deductions	
Distributions to Participants	<u>72,920</u>
<i>Total Deductions</i>	<u>72,920</u>
 <i>Change in Net Position</i>	 473,336
<i>Net Position, Beginning of Year</i>	<u>6,388,534</u>
<i>Net Position, End of Year</i>	<u>\$ 6,861,870</u>

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE

During prior fiscal years, the Center has entered into a capital lease for copiers. The terms of each lease agreement provide an option to purchase the copier.

Principal payments in fiscal year 2018 totaled \$8,099. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2018:

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 10,320
2020	10,320
2021	<u>5,160</u>
Total minimum lease payments	25,800
Less amount representing interest	<u>(2,486)</u>
Total	<u>\$ 23,314</u>

NOTE 8 - RISK MANAGEMENT

A. Comprehensive and Employee Health

The 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. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2018, the Center participated in the Ohio School Board Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$180,596 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was \$554,147 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.04879870%	0.03763002%	
Proportion of the net pension liability current measurement date	<u>0.04340660%</u>	<u>0.03753904%</u>	
Change in proportionate share	<u>-0.00539210%</u>	<u>-0.00009098%</u>	
Proportionate share of the net pension liability	\$ 2,593,448	\$ 8,917,479	\$ 11,510,927

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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Center's proportionate share of the net pension liability	\$ 3,599,032	\$ 2,593,448	\$ 1,751,067

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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u><u>100.00 %</u></u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Center's proportionate share of the net pension liability	\$ 12,782,903	\$ 8,917,479	\$ 5,661,439

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NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Chapter 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Center's surcharge obligation was \$22,592.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contractually required contribution to SERS was \$6,689 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Center's proportion of the net OPEB liability was based on the Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

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NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.04377400%	0.03753904%	
Proportion of the net OPEB liability current measurement date	<u>0.04377400%</u>	<u>0.03753904%</u>	
Change in proportionate share	<u>0.00000000%</u>	<u>0.00000000%</u>	
Proportionate share of the net OPEB liability	\$ 1,174,779	\$ 1,464,635	\$ 2,639,414

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

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NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the State statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
Center's proportionate share of the net OPEB liability	\$ 1,418,695	\$ 1,174,779	\$ 981,535

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NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Center's proportionate share of the net OPEB liability	\$ 953,245	\$ 1,174,779	\$ 1,467,983

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Center's proportionate share of the net OPEB liability	\$ 1,966,249	\$ 1,464,635	\$ 1,068,196
	1% Decrease	Current Trend Rate	1% Increase
Center's proportionate share of the net OPEB liability	\$ 1,017,566	\$ 1,464,635	\$ 2,053,030

NOTE 11 - CONTINGENCIES

Grants

The Center receives significant financial assistance from numerous federal, State and local 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 Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

State Foundation

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Educational Service Center, which can extend past the fiscal year-end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2018, Foundation funding for the Center. As a result of the adjustments, the Center received an additional \$25,663 from ODE. This amount has not been included in the financial statements.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(CONTINUED)

NOTE 12 - OTHER COMMITMENTS

The Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the Center's commitments for encumbrances in the governmental funds were as follows:

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 168,805
Other governmental	<u>480,996</u>
Total	<u>\$ 649,801</u>

NOTE 13 - OPERATING LEASES - LESSEE DISCLOSURE

The Center entered into a lease with the Shelby County Commissioners for approximately 3,008 square feet of building space. The lease requires monthly payments of \$1,300.

The Center entered into a lease with The Nerd Room, LLC for approximately 500 square feet of storage space and single office space for one workstation. The lease requires monthly payments of \$275.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Tuition.	\$ 3,707,872	\$ 3,795,445	\$ 3,831,204	\$ 35,759
Earnings on investments.	48,846	50,000	54,338	4,338
Extracurricular.	2,288	2,342	2,342	-
Contributions and donations.	37,300	38,181	39,144	963
Contract services.	2,836,440	2,903,433	2,943,269	39,836
Other local revenues.	187,934	192,373	192,758	385
Intergovernmental	469,413	480,500	482,669	2,169
Total budgetary basis receipts.	<u>7,290,093</u>	<u>7,462,274</u>	<u>7,545,724</u>	<u>83,450</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	102,283	101,785	101,478	307
Special.	2,991,412	2,976,839	2,908,882	67,957
Support services:				
Pupil.	2,403,752	2,392,042	2,347,227	44,815
Instructional staff	527,800	525,229	503,451	21,778
Board of education	120,166	119,581	114,174	5,407
Administration.	668,498	665,241	642,906	22,335
Fiscal	490,469	488,080	478,299	9,781
Operations and maintenance.	86	86	86	-
Pupil transportation	43,061	42,851	42,806	45
Central.	143,338	142,640	142,276	364
Total budgetary basis disbursements	<u>7,490,865</u>	<u>7,454,374</u>	<u>7,281,585</u>	<u>172,789</u>
Excess (deficiency) of receipts over (under) disbursements.	<u>(200,772)</u>	<u>7,900</u>	<u>264,139</u>	<u>256,239</u>
Other financing sources (uses):				
Refund of prior year expenditures	39,583	40,518	40,518	-
Advances in.	24,595	25,176	25,176	-
Advances (out)	(13,048)	(12,984)	(12,984)	-
Total other financing sources (uses)	<u>51,130</u>	<u>52,710</u>	<u>52,710</u>	<u>-</u>
Net change in fund cash balance	(149,642)	60,610	316,849	256,239
Fund cash balance at beginning of year . . .	4,838,302	4,838,302	4,838,302	-
Prior year encumbrances appropriated . . .	180,801	180,801	180,801	-
Fund cash balance at end of year	<u>\$ 4,869,461</u>	<u>\$ 5,079,713</u>	<u>\$ 5,335,952</u>	<u>\$ 256,239</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULE

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - BUDGETARY PROCESS

The Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Center Board does follow the budgetary process for control purposes.

The Center's Governing Board adopts the budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedule reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedule reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Center Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds with the exception of the general fund, which is at the one digit object code. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedule reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedule represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations and changes in fund balances on the modified cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary comparison schedule presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the modified cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than assigned fund balance (modified cash).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statement to the budgetary basis schedule for the general fund:

Net Change in Fund Cash Balance

	<u>General fund</u>
Modified cash basis	\$ 435,388
Funds budgeted elsewhere **	(596)
Adjustment for encumbrances	<u>(117,943)</u>
Budget basis	<u>\$ 316,849</u>

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund for reporting purposes. This includes the special enterprise fund and the public school support fund.

OHIO AUDITOR OF STATE KEITH FABER



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

Midwest Regional Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, Ohio 43311

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, (the Center) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 19, 2019, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

Center's Response to Finding

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the Center's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 19, 2019

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2018-001

NONCOMPLIANCE

Ohio Rev. Code § 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 Admin. Code § 117-2-03(B) further clarifies the requirements of Ohio Rev. Code § 117.38, which requires the Center to file its annual financial report which is prepared using generally accepted accounting principles (GAAP).

The Center prepared financial statements that, although formatted similarly to financial statements prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38, the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Center's ability to evaluate and monitor the overall financial condition of the Center. To help provide the users with more meaningful financial statements, the Center should prepare its annual financial statements according to generally accepted accounting principles.

Officials' Response:

The Treasurer and Governing Board are aware of the requirement. The Midwest Regional Educational Service Center Board approved on March 19, 2015 to present the MRESC's annual financial report on another comprehensive basis of accounting (OCBOA) accepted by Auditor of State, which substantially conforms to the reporting model prescribed by GASB No. 34. This decision was based on the cost benefit relationship. The Treasurer had obtained a quote for the GAAP conversion, which was three times the cost, in addition to increased audit costs.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Center did not file annual financial report prepared in accordance with generally accepted accounting principles (GAAP).	Not corrected	Repeated as Finding 2018-001 The Center has chosen to file Other Comprehensive Basis of Accounting (OCBOA) statements rather than filing GAAP statements due to cost considerations. Citation repeated as Finding 2018-001.

OHIO AUDITOR OF STATE KEITH FABER



MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER

LOGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 7, 2019**