**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**
**MONTGOMERY COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Dave Yost • Auditor of State

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**
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## INDEPENDENT AUDITOR'S REPORT

Montgomery County Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, Ohio (the Center), as of and for the year ended June 30, 2015, 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 accounting principles generally accepted in the United States of America; this includes 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 18 to the financial statements, during the year ended June 30, 2015, the Center adopted Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis and schedules of net pension liabilities and pension contributions* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the Center's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the 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 the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves 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 April 6, 2016, 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.

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

April 6, 2016

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The discussion and analysis of Montgomery County Educational Service Center's (the Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the Notes to the Basic Financial Statements and financial statements to enhance their understanding of the Center's performance.

## Financial Highlights

Key financial highlights for 2015 are as follows:

- Net position of governmental activities increased $2,396,487 or 12%.

- General revenues accounted for $1,752,744 in revenue or 5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $33,490,847 or 95% of total revenues of $35,243,591 .

- The Center had $32,847,104 in expenses related to governmental activities; $33,490,847 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $1,752,744 were also used to provide for these programs.

## Overview of the Financial Statements

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

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

## Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Government-wide Financial Statements answer this question. These statements include all assets and deferred outflows, and liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's net position and changes in net position. This change in net position is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the Center presents:

- Governmental Activities – Most of the Center's programs and services are reported here including instruction, support services and operation of non-instructional services.

**Fund Financial Statements**

The analysis of the Center's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

***Governmental Funds*** Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

***Fiduciary Funds*** Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

**The Center as a Whole**

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2015 compared to 2014:

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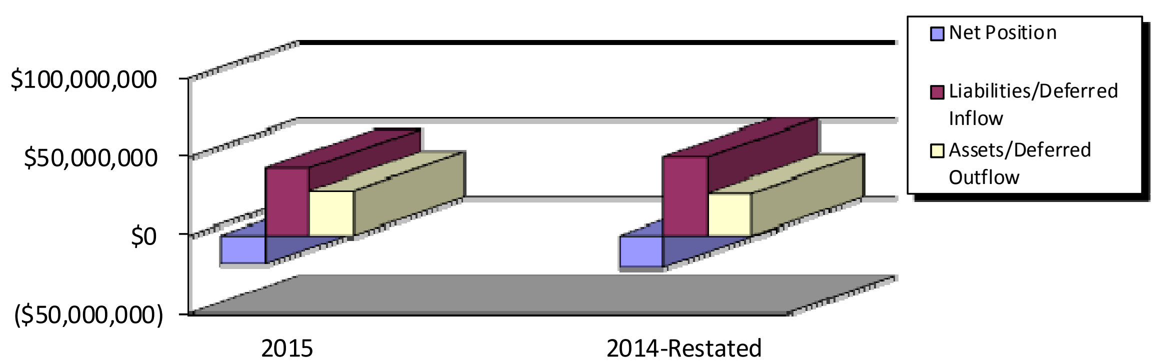
Table 1
Net Position

| | Governmental Activities 2015 | Governmental Activities 2014-Restated |
|---|---|---|
| Assets: | | |
| Current and Other Assets | $20,502,657 | $19,872,683 |
| Capital Assets | 8,250,548 | 7,360,528 |
| Total Assets | 28,753,205 | 27,233,211 |
| Deferred Outflows of Resources: | | |
| Pension | 3,206,316 | 2,508,329 |
| Total Deferred Outflows of Resources | 3,206,316 | 2,508,329 |
| Liabilities: | | |
| Other Liabilities | 3,423,847 | 3,236,691 |
| Long-Term Liabilities | 39,648,097 | 47,025,416 |
| Total Liabilities | 43,071,944 | 50,262,107 |
| Deferred Inflows of Resources: | | |
| Pension | 7,011,657 | 0 |
| Total Deferred Inflows of Resources | 7,011,657 | 0 |
| Net Position: | | |
| Net Investment in Capital Assets | 8,250,548 | 7,360,528 |
| Restricted | 1,916,960 | 1,672,823 |
| Unrestricted | (28,291,588) | (29,553,918) |
| Total Net Position | ($18,124,080) | ($20,520,567) |



During 2015, the Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Center's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $23,288,496 to $(20,520,567).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Center's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $18,124,080.

At year-end, capital assets represented 29% of total assets. Capital assets, net of related debt to acquire the assets include land, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2015, was $8,250,548. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, $1,916,960, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and Other Assets increased mainly due to an increase in equity in pooled cash and investments and accounts receivable. Capital Assets increased mainly due to current year depreciation expense being less than current year additions. Total Liabilities decreased mainly due to a decrease in Net Pension Liability.

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Table 2 shows the changes in net position for fiscal years 2015 and 2014.

Table 2
Changes in Net Position

| | Governmental Activities | |
|---|---|---|
| | 2015 | 2014-Restated |
| Revenues: | | |
| Program Revenues | | |
| Charges for Services | $29,179,979 | $25,713,430 |
| Operating Grants and Contributions | 4,310,868 | 4,193,754 |
| General Revenues: | | |
| Grants and Entitlements | 1,622,923 | 1,841,081 |
| Other | 129,821 | 135,443 |
| Total Revenues | 35,243,591 | 31,883,708 |
| Program Expenses: | | |
| Instruction | 10,125,735 | 9,225,937 |
| Support Services: | | |
| Pupil and Instructional Staff | 15,645,335 | 14,833,491 |
| School Administrative, General Administration, Fiscal and Business | 2,297,036 | 2,397,475 |
| Operations and Maintenance | 2,119,553 | 1,268,558 |
| Pupil Transportation | 856,569 | 970,703 |
| Central | 830,377 | 645,109 |
| Operation of Non-Instructional Services | 972,499 | 690,701 |
| Total Program Expenses | 32,847,104 | 30,031,974 |
| Change in Net Position | 2,396,487 | 1,851,734 |
| Net Position - Beginning of Year, Restated | (20,520,567) | N/A |
| Net Position - End of Year | ($18,124,080) | ($20,520,567) |

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of $2,508,329 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expenses of $1,928,391. Consequently, in order to compare 2015 total expenses to 2014, the following adjustments are needed:

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| | |
|---|---|
| Total 2015 program expenses under GASB 68 | $32,847,104 |
| Program expenses under GASB 68 | (1,928,391) |
| 2015 contractually required contributions | 2,840,813 |
| Adjusted 2015 program expenses | 33,759,526 |
| Total 2014 program expenses under GASB 27 | 30,031,974 |
| Increase in program expenses not related to pension | $3,727,552 |

The Center's revenues are mainly from three sources. Charges for services, operating grants and contributions and grants and entitlements comprised 99.6% of the Center's revenues for governmental activities.

Instruction comprises 31% of governmental program expenses. Support services expenses were 66% of governmental program expenses. All other expenses were 3%.

Charges for services and Operating Grants made up 95% of revenues for governmental activities for the Center in 2015. The Center's reliance upon charges for services and operating grants is demonstrated by the following table:

| Revenue Sources | 2015 | Percent of Total |
|---|---|---|
| General Grants | $1,622,923 | 4.6% |
| Program Revenues | 33,490,847 | 95.0% |
| Investment Earnings | 24,913 | 0.1% |
| Other Revenues | 104,908 | 0.3% |
| | $35,243,591 | 100.0% |

Revenues in total increased in 2015 as compared to 2014 due to an increase in charges for services and sales. Total expenses increased in 2015 as compared to 2014 due to the increase of instruction expenses, instructional staff, and operations and maintenance.

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services.

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Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Instruction | $10,125,735 | $9,225,937 | $46,011 | $43,303 |
| Support Services: | | | | |
| Pupil and Instructional Staff | 15,645,335 | 14,833,491 | 361,286 | (601,049) |
| School Administrative, General Administration, Fiscal and Business | 2,297,036 | 2,397,475 | (18,465) | 78,874 |
| Operations and Maintenance | 2,119,553 | 1,268,558 | 217,375 | 625,635 |
| Pupil Transportation | 856,569 | 970,703 | 119,637 | (135,756) |
| Central | 830,377 | 645,109 | 37,639 | (936) |
| Operation of Non-Instructional Services | 972,499 | 690,701 | (119,740) | (134,861) |
| Total Expenses | $32,847,104 | $30,031,974 | $643,743 | ($124,790) |

## The Center's Funds

The Center has two major governmental funds: the General Fund and Title VI-B Fund. Assets of these funds comprise $18,877,888 (90%) of the total $20,974,733 governmental funds' assets.

***General Fund***: Fund balance at June 30, 2015 was $14,791,767 including $13,796,224 of unassigned balance. The primary reason for the increase in fund balance was a result of an increase in tuition and fees revenue.

***Title VI-B Fund***: Fund balance at June 30, 2015 was $(99,417). The primary reason for the decrease in fund balance was due to a decrease in total revenues.

## General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2015 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations.

## Capital Assets and Debt Administration

### *Capital Assets*

At the fiscal year end 2015, the Center had $8,250,548 invested in land, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2015 balances as compared to fiscal year 2014:

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

| | Governmental Activities | |
|---|---|---|
| | 2015 | 2014 |
| Land | $182,098 | $182,098 |
| Construction in Progress | 0 | 828,808 |
| Buildings and Improvements | 7,344,843 | 5,493,528 |
| Furniture and Equipment | 395,440 | 462,154 |
| Vehicles | 328,167 | 393,940 |
| Total Net Capital Assets | $8,250,548 | $7,360,528 |

Capital assets increased in fiscal year 2015 due to the current year depreciation expense being less than current year additions.

See Note 6 to the basic financial statements for further details on the Center's capital assets.

***Debt***

At June 30, 2015, the Center had no debt outstanding.

See Note 11 to the basic financial statements for further details on the Center's long-term obligations.

**For the Future**

Local districts are reorganizing and putting buildings to use that were previously rented by the Center. As a result, the Center has purchased four buildings to accommodate special education programs. The Center has seen positive outcomes from the addition of these buildings and expects this trend to continue. These positive outcomes include additional space for programs and more secure locations for programs which the local districts find favorable.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Christopher Fox, Treasurer, at Montgomery County Center, 200 South Keowee, Dayton, Ohio 45402 or email at christopher.fox@mcesc.org.

Montgomery County Educational Service Center
Statement of Net Position
June 30, 2015

| | Governmental Activities |
|---|---|
| Assets: | |
| Equity in Pooled Cash and Investments | $18,616,773 |
| Receivables (Net): | |
| Accounts | 906,396 |
| Intergovernmental | 979,488 |
| Nondepreciable Capital Assets | 182,098 |
| Depreciable Capital Assets, Net | 8,068,450 |
| Total Assets | 28,753,205 |
| Deferred Outflows of Resources: | |
| Pension | 3,206,316 |
| Total Deferred Outflows of Resources | 3,206,316 |
| Liabilities: | |
| Accounts Payable | 205,083 |
| Accrued Wages and Benefits | 3,218,764 |
| Long-Term Liabilities: | |
| Due Within One Year | 110,567 |
| Due In More Than One Year | |
| Net Pension Liability | 39,091,300 |
| Other Amounts | 446,230 |
| Total Liabilities | 43,071,944 |
| Deferred Inflows of Resources: | |
| Pension | 7,011,657 |
| Total Deferred Inflows of Resources | 7,011,657 |
| Net Position: | |
| Net Investment in Capital Assets | 8,250,548 |
| Restricted for: | |
| Federal Grants | 326,861 |
| Regional Transportation | 1,278,798 |
| State Grants | 203,683 |
| Other Purposes | 107,618 |
| Unrestricted | (28,291,588) |
| Total Net Position | ($18,124,080) |

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2015

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | $83,604 | $75,992 | $0 | ($7,612) |
| Special | 10,042,131 | 9,921,722 | 174,032 | 53,623 |
| Support Services: | | | | |
| Pupil | 9,495,934 | 9,354,402 | 20,332 | (121,200) |
| Instructional Staff | 6,149,401 | 3,330,642 | 3,301,245 | 482,486 |
| General Administration | 141,908 | 143,332 | 0 | 1,424 |
| School Administration | 1,677,857 | 1,664,279 | 2,483 | (11,095) |
| Fiscal | 477,271 | 425,584 | 42,893 | (8,794) |
| Operations and Maintenance | 2,119,553 | 2,031,457 | 305,471 | 217,375 |
| Pupil Transportation | 856,569 | 824,131 | 152,075 | 119,637 |
| Central | 830,377 | 697,279 | 170,737 | 37,639 |
| Operation of Non-Instructional Services | 972,499 | 711,159 | 141,600 | (119,740) |
| Total Governmental Activities | $32,847,104 | $29,179,979 | $4,310,868 | 643,743 |

| | |
|---|---|
| General Revenues: | |
| Grants and Entitlements, Not Restricted | 1,622,923 |
| Unrestricted Contributions | 2,072 |
| Investment Earnings | 24,913 |
| Other Revenues | 102,836 |
| Total General Revenues | 1,752,744 |
| Change in Net Position | 2,396,487 |
| Net Position - Beginning of Year, Restated | (20,520,567) |
| Net Position - End of Year | ($18,124,080) |

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2015

| | General | Title VI-B | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Assets: | | | | |
| Equity in Pooled Cash and Investments | $16,812,575 | $257,360 | $1,546,838 | $18,616,773 |
| Receivables (Net): | | | | |
| Accounts | 899,030 | 0 | 7,366 | 906,396 |
| Intergovernmental | 0 | 473,448 | 506,040 | 979,488 |
| Interfund | 435,475 | 0 | 36,601 | 472,076 |
| Total Assets | 18,147,080 | 730,808 | 2,096,845 | 20,974,733 |
| Liabilities: | | | | |
| Accounts Payable | 174,071 | 4,141 | 26,871 | 205,083 |
| Accrued Wages and Benefits | 2,930,546 | 195,288 | 92,930 | 3,218,764 |
| Compensated Absences | 12,648 | 0 | 0 | 12,648 |
| Interfund Payable | 0 | 291,074 | 181,002 | 472,076 |
| Total Liabilities | 3,117,265 | 490,503 | 300,803 | 3,908,571 |
| Deferred Inflows of Resources: | | | | |
| Grants | 0 | 339,722 | 219,956 | 559,678 |
| Accounts | 238,048 | 0 | 972 | 239,020 |
| Total Deferred Inflows of Resources | 238,048 | 339,722 | 220,928 | 798,698 |
| Fund Balances: | | | | |
| Restricted | 0 | 0 | 1,666,882 | 1,666,882 |
| Assigned | 995,543 | 0 | 0 | 995,543 |
| Unassigned | 13,796,224 | (99,417) | (91,768) | 13,605,039 |
| Total Fund Balances | 14,791,767 | (99,417) | 1,575,114 | 16,267,464 |
| Total Liabilities, Deferred Inflows and Fund Balances | $18,147,080 | $730,808 | $2,096,845 | $20,974,733 |

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
June 30, 2015

| | | |
|---|---|---|
| Total Governmental Fund Balance | | $16,267,464 |
| | | |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Capital assets used in the operation of Governmental Funds | | 8,250,548 |
| | | |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | |
| Intergovernmental | $559,678 | |
| Other | 239,020 | |
| | | 798,698 |
| | | |
| Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. | | |
| Compensated Absences | | (544,149) |
| | | |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources related to pensions | $3,206,316 | |
| Deferred inflows of resources related to pensions | (7,011,657) | |
| | | (3,805,341) |
| | | |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Net Pension Liability | | (39,091,300) |
| | | |
| Net Position of Governmental Activities | | ($18,124,080) |

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2015

| | General | Title VI-B | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Revenues: | | | | |
| Tuition and Fees | $21,109,512 | $0 | $731,381 | $21,840,893 |
| Investment Earnings | 24,913 | 0 | 0 | 24,913 |
| Intergovernmental | 1,796,955 | 1,943,816 | 2,211,822 | 5,952,593 |
| Charges for Services | 6,861,524 | 0 | 268,519 | 7,130,043 |
| Other Revenues | 447,975 | 5,018 | 4,522 | 457,515 |
| Total Revenues | 30,240,879 | 1,948,834 | 3,216,244 | 35,405,957 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 85,663 | 0 | 0 | 85,663 |
| Special | 10,083,583 | 0 | 0 | 10,083,583 |
| Support Services: | | | | |
| Pupil | 9,450,823 | 21,637 | 0 | 9,472,460 |
| Instructional Staff | 3,232,289 | 1,688,320 | 1,300,891 | 6,221,500 |
| General Administration | 142,628 | 0 | 0 | 142,628 |
| School Administration | 1,724,895 | 2,555 | 82 | 1,727,532 |
| Fiscal | 417,022 | 35,334 | 56,708 | 509,064 |
| Operations and Maintenance | 1,720,070 | 289,910 | 33,838 | 2,043,818 |
| Pupil Transportation | 0 | 0 | 805,314 | 805,314 |
| Central | 693,090 | 0 | 168,325 | 861,415 |
| Operation of Non-Instructional Services | 654,241 | 0 | 319,046 | 973,287 |
| Capital Outlay | 1,545,981 | 0 | 315,889 | 1,861,870 |
| Total Expenditures | 29,750,285 | 2,037,756 | 3,000,093 | 34,788,134 |
| Excess of Revenues Over (Under) Expenditures | 490,594 | (88,922) | 216,151 | 617,823 |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 2,000 | 2,000 |
| Transfers In | 0 | 0 | 158,054 | 158,054 |
| Transfers (Out) | (158,054) | 0 | 0 | (158,054) |
| Total Other Financing Sources (Uses) | (158,054) | 0 | 160,054 | 2,000 |
| Net Change in Fund Balance | 332,540 | (88,922) | 376,205 | 619,823 |
| Fund Balance - Beginning of Year | 14,459,227 | (10,495) | 1,198,909 | 15,647,641 |
| Fund Balance - End of Year | $14,791,767 | ($99,417) | $1,575,114 | $16,267,464 |

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

| | | |
|---|---|---|
| Net Change in Fund Balance - Total Governmental Funds | | $619,823 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period. | | |
| Capital assets used in governmental activities | $1,252,321 | |
| Depreciation Expense | (362,301) | |
| | | 890,020 |
| Governmental funds report district pension contributions as expenditures. However in the Statement of Activites, the cost of pension benefits earned net of employee contributions is reported as pension expense. | | |
| Center pension contributions | $2,840,813 | |
| Cost of benefits earned net of employee contrbutions | (1,928,391) | |
| | | 912,422 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Intergovernmental | ($18,802) | |
| Other | (145,564) | |
| | | (164,366) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Compensated Absences | | 138,588 |
| Change in Net Position of Governmental Activities | | $2,396,487 |

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2015

| | Agency |
|---|---|
| Assets: | |
| Equity in Pooled Cash and Investments | $2,026,074 |
| Receivables (Net): | |
| Accounts | 57,091 |
| Total Assets | 2,083,165 |
| Liabilities: | |
| Accounts Payable | 786 |
| Other Liabilities | 2,082,379 |
| Total Liabilities | $2,083,165 |

See accompanying notes to the basic financial statements.

## Note 1 – Description of the Center and Reporting Entity

The Montgomery County Educational Service Center (the Center) is located in Dayton, Ohio, the county seat. The Montgomery County Board of Education was established in 1914, and in 1995, the legislature mandated the name change to Center. The Center supplies supervisory, special education, administrative, and other services to several school districts throughout the Miami Valley. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Montgomery County Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and/or federal agencies. The Center has 135 classified staff employees, 192 certified teaching personnel, and six administrative employees that provide services to the local, exempted village, and city school districts.

### Reporting Entity

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

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; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The Center has no component units.

The Center participates in two jointly governed organizations, two insurance purchasing pools, and one public entity shared risk pool. These organizations are discussed in Note 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:
- Metropolitan Dayton Educational Cooperative Association
- Southwestern Ohio Educational Purchasing Council

Insurance Purchasing Pools:
- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Ohio School Plan

Public Entity Shared Risk Pool
- Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

## Note 2 – Summary of Significant Accounting Policies

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

### Measurement Focus

#### Government-wide Financial Statements

The Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities and fund financial statements which provide a more detailed level of financial information.

The government-wide statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the Center are included on the Statement of Net Position. Fiduciary Funds are not included in entity-wide statements.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. The Center allocates certain indirect costs. The indirect costs are included as part of the program expense reported for individual functions and activities. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

#### Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The agency funds are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fiduciary Assets and Liabilities.

## Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Center fall within two categories: governmental and fiduciary.

### 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 current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows of resources, liabilities and deferred inflows of resources is reported as fund balance. The following are the Center's major governmental funds:

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

Title VI-B Fund - The Title VI-B Fund accounts for restricted federal special education grants that assist in providing an appropriate public education to all children with disabilities.

### 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center’s only fiduciary funds are agency funds. The Center’s agency funds account for the activity of the Metropolitan Dayton Educational Cooperative Association as well as a flexible spending and flower account for employees.

## Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures.

### Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: excess costs, tuition and student fees, grants, and accrued interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Center, deferred outflows of resources include pension on the government-wide statement of net position.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include grants, pension and unavailable revenue (which includes accounts receivable). The amounts related to grants and accounts receivable are only recorded on the fund level balance sheet and have been recorded as revenue on the statement of activities. The amount related to pension is only recorded on the government-wide statement of net position.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**Equity in Pooled Cash and Investments**

To improve cash management, all cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2015, the Center's investments were limited to negotiable certificates of deposit, which are reported at cost.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2015 amounted to $24,913.

**Interfund Activity**

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

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated on the governmental activities columns of the Statement of Net Position.

As a general rule the effect of interfund (internal) activity has been eliminated from the government-wide Statement of Activities. The interfund services provided and used are not eliminated in the process of consolidation.

**Capital Assets**

The Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of $5,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Estimated Lives |
|---|---|
| Buildings and Improvements | 50 years |
| Furniture and Equipment | 5-10 years |
| Vehicles | 5-10 years |

**Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Loans that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**Pensions**

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

**Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for all employees after 20 years of current service with the Center.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences" in the funds from which the employees will be paid.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes miscellaneous funds whose use is restricted to specified purposes.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's $1,916,960 in restricted net position, none were restricted by enabling legislation.

**Estimates**

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

**Budgetary Process**

No budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Centers are not required to prepare a budget.

**Fund Balance**

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

> Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.
>
> Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.
>
> Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education resolution.
>
> Assigned – resources that are intended to be used for specific purposes as approved through the Center's formal purchasing procedure by the Treasurer.
>
> Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

## Note 3 – Equity in Pooled Cash and Investments

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

Active monies are public monies determined to be necessary to meet current demands upon the Center's 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 Board of Education 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.

Interim monies held by the Center 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;

4. Bonds and other obligations of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and

8. Commercial paper and bankers acceptances if training requirements have been met.

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

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.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement 40, "Deposit and Investment Risk Disclosures".

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2015, $17,464,938 of the Center's bank balance of $17,777,827 was exposed to credit risk as the entire balance is covered by the Federal Deposit Insurance Corporation and pooled collateral from each financial institution. At June 30, 2015, the carrying amount of all Center deposits was $17,639,501.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

**Investments**

As of June 30, 2015, the Center had the following investments:

| | Fair Value | Weighted Average Maturity (Years) |
|---|---|---|
| Negotiable CD's | $3,003,346 | 1.90 |

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years.

Credit Risk – It is the Center's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. Negotiable CD's are not rated.

Concentration of Credit Risk – The Center's investment policy allows investments in Federal Agencies or Instrumentalities. The Center has invested only in Negotiable CD's.

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 investments or collateral securities that are in the possession of an outside party.

## Note 4 – State and Local School District Funding

The Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Center. The Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Center also receives funding from the State Department of Education in the amount of $30.24 times the average daily membership of the Center. Average daily membership includes the total student counts of all local school districts within the Center's territory and all of the Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school districts an amount equal to $6.50 times the school district's total student count and remits this amount to the Center.

The Center may contract with city, exempted village, local, joint vocational, or cooperative educational school districts to provide special education and related services or career-technical educational services. The individual boards of education pay the costs for these services directly to the Center.

## Note 5 – Receivables

Receivables at June 30, 2015, consisted of accounts, intergovernmental and interfund. All receivables are considered collectible in full and will be received within one year.

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## Note 6 – Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015, was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| ***Capital Assets, not being depreciated:*** | | | | |
| Land | $182,098 | $0 | $0 | $182,098 |
| Construction in Progress | 828,808 | 1,210,519 | 2,039,327 | 0 |
| Total Capital Assets, not being depreciated | 1,010,906 | 1,210,519 | 2,039,327 | 182,098 |
| ***Capital Assets, being depreciated:*** | | | | |
| Buildings and Improvements | 6,747,860 | 2,039,327 | 0 | 8,787,187 |
| Furniture and Equipment | 3,653,813 | 41,802 | 0 | 3,695,615 |
| Vehicles | 771,397 | 0 | 0 | 771,397 |
| ***Total Capital Assets, being depreciated:*** | 11,173,070 | 2,081,129 | 0 | 13,254,199 |
| Totals at Historical Cost | 12,183,976 | 3,291,648 | 2,039,327 | 13,436,297 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 1,254,332 | 188,012 | 0 | 1,442,344 |
| Furniture and Equipment | 3,191,659 | 108,516 | 0 | 3,300,175 |
| Vehicles | 377,457 | 65,773 | 0 | 443,230 |
| Total Accumulated Depreciation | 4,823,448 | 362,301 | 0 | 5,185,749 |
| Governmental Activities Capital Assets, Net | $7,360,528 | $2,929,347 | $2,039,327 | $8,250,548 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---|
| Instruction: | |
| Special | $24,282 |
| Support Services: | |
| Pupil | 51,129 |
| Instructional Staff | 64,108 |
| School Administration | 11,169 |
| Fiscal | 6,139 |
| Operations and Maintenance | 88,166 |
| Pupil Transportation | 56,468 |
| Central | 58,885 |
| Operation of Non-Instructional Services | 1,955 |
| Total Depreciation Expense | $362,301 |

## Note 7 – Risk Management

### Property and Liability

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. During fiscal year 2015, the Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool (See Note 13). Each individual participant enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Center pays this annual premium to the OSP. The Center contracts for property, fleet, and liability insurance with OSP.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

### Workers' Compensation

For fiscal year 2015, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The plan is intended 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 participants is calculated as one experience and a common premium rate is applied to all participants 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

### Medical Benefits

For fiscal year 2015, the Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (Note 13). The Center pays monthly premiums to the Trust for employee medical insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

## Note 8 - Defined Benefit Pension Plans

### Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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.

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.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

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

Plan Description – 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<br>Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit<br>Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or<br>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.

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was $856,515 for fiscal year 2015. Of this amount $49,730 is reported as accrued wages and benefits.

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

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

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. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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, member contributions are allocated among investment choices by the member, and employer contributions 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was $1,984,298 for fiscal year 2015. Of this amount $218,977 is reported as accrued wages and benefits.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2014, 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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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| | SERS | STRS | Total |
|---|---|---|---|
| Proportionate Share of the Net Pension Liability | $9,708,002 | $29,383,298 | $39,091,300 |
| Proportion of the Net Pension Liability | 0.19182200% | 0.12080223% | |
| Pension Expense | 570,910 | 1,357,481 | 1,928,391 |

At June 30, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences between expected and actual experience | $82,625 | $282,878 | $365,503 |
| Center contributions subsequent to the measurement date | 856,515 | 1,984,298 | 2,840,813 |
| Total Deferred Outflows of Resources | $939,140 | $2,267,176 | $3,206,316 |
| **Deferred Inflows of Resources** | | | |
| Net difference between projected and actual earnings on pension plan investments | $1,575,636 | $5,436,021 | $7,011,657 |

$2,840,813 reported as deferred outflows of resources related to pension resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2016 | ($373,252) | ($1,288,285) | ($1,661,537) |
| 2017 | (373,253) | (1,288,286) | (1,661,539) |
| 2018 | (373,253) | (1,288,286) | (1,661,539) |
| 2019 | (373,253) | (1,288,286) | (1,661,539) |
| Total | ($1,493,011) | ($5,153,143) | ($6,646,154) |

**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, 2014, are presented below:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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:

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| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 1.00 % | 0.00 % |
| US Stocks | 22.50 | 5.00 |
| Non-US Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | 15.00 | 7.50 |
| Total | 100.00 % | |

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 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 (7.75 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 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Center's proportionate share of the net pension liability | $13,850,434 | $9,708,002 | $6,223,859 |

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | 100.00 % | |

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**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 7.75 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 (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Center's proportionate share of the net pension liability | $42,065,394 | $29,383,298 | $18,658,572 |

## Note 9 - Post Employment Benefits

***School Employees Retirement System***

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 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. 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 2015, the Center's surcharge obligation was $49,730.

The Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $99,897, $8,579, and $8,024, respectively. For fiscal year 2015, 94 percent has been contributed, with the balance being reported as accrued wages and benefits. The full amount has been contributed for fiscal years 2014 and 2013.

***State Teachers Retirement System***

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $124,844, and $128,329 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

## Note 10 – Other Employee Benefits

### Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All 12 month employees earn 10 to 23 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time. All personal leave must be used by fiscal year-end and cannot be carried forward.

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 285 days for all personnel. Upon retirement, employees with 10 or more years of current service with the public schools of Ohio receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 66 days.

### Insurance Benefits

The Center provides life insurance and accidental death and disbursement insurance to full-time employees through Sun Life Assurance Company of Canada. Dental insurance is provided through Dental Care Plus.

**Deferred Compensation Plan**

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

## Note 11 – Long-Term Obligations

The changes in the Center's long-term obligations during fiscal year 2015 were as follows:

| | Restated Beginning Outstanding | Additions | Deductions | Ending Outstanding | Due In One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Net Pension Liability: | | | | | |
| STRS | $34,906,932 | $0 | $5,523,634 | $29,383,298 | $0 |
| SERS | 11,410,460 | 0 | 1,702,458 | $9,708,002 | 0 |
| Total Net Pension Liability | 46,317,392 | 0 | 7,226,092 | 39,091,300 | 0 |
| Compensated Absences | 708,024 | 121,251 | 272,478 | 556,797 | 110,567 |
| Total Governmental Activities Long-Term Liabilities | $47,025,416 | $121,251 | $7,498,570 | $39,648,097 | $110,567 |

Compensated absences will be paid from the General, Miscellaneous State Grants, Miscellaneous Federal Grants, Regional Transportation, and Title VI-B funds.

## Note 12 – Interfund Balances/Transfers

Interfund transactions at June 30, 2015, consisted of the following individual fund receivables and payables and transfers:

| | Interfund | | Transfers | |
|---|---|---|---|---|
| | Receivable | Payable | In | Out |
| General Fund | $435,475 | $0 | $0 | $158,054 |
| Title VI-B | 0 | 291,074 | 0 | 0 |
| Other Governmental Funds | 36,601 | 181,002 | 158,054 | 0 |
| Total All Funds | $472,076 | $472,076 | $158,054 | $158,054 |

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate and to return money to the fund from which it was originally provided once a project is completed.

All interfund balances are expected to be paid within one year.

## Note 13 – Jointly Governed Organizations, Insurance Purchasing Pools and Public Entity Shared Risk Pool

### Jointly Governed Organizations

**Metropolitan Dayton Educational Cooperative Association** - The Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. The Educational Service Center paid MDECA $54,054 for services provided during the fiscal year. Financial information can be obtained from Dean Reineke, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

**Southwestern Ohio Educational Purchasing Council** -The Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of over 100 school districts and educational service centers in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or 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 SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits 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 made from the General Fund. During fiscal year 2015, the Center paid $300 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

### Insurance Purchasing Pools

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**Ohio School Plan** - The Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a 13 member Board of Directors consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services, LLC to provide underwriting, claims management, risk management, accounting, system support services, sales and marking to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

**Public Entity Shared Risk Pool**

**Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust** - The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c) (9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

## Note 14 – Accountability

The following funds had deficit fund balances as of June 30, 2015:

| | |
|---|---|
| Title VI-B | $99,417 |
| Other Governmental Funds: | |
| Food Service | 12,545 |
| ECO Training | 3,802 |
| Miscellaneous State Grants | 5,080 |
| Miscellaneous Federal Grants | 70,341 |

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2016. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

## Note 15 – Fund Balances

Fund balance is classified as nonspendable, restricted, assigned and/or unassigned based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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| Fund Balances | General | Title VI-B | Other Governmental Funds | Total |
|---|---|---|---|---|
| **Restricted for:** | | | | |
| Mentoring Services | $0 | $0 | $214 | 214 |
| Scholarship | 0 | 0 | 5,844 | 5,844 |
| Martha Holding Jennings-Dayton Stem School | 0 | 0 | 450 | 450 |
| Rotary | 0 | 0 | 100,977 | 100,977 |
| Regional Transportation | 0 | 0 | 1,277,959 | 1,277,959 |
| Straight A Grant | 0 | 0 | 197,275 | 197,275 |
| Ohio Resident Educator Grant | 0 | 0 | 84,163 | 84,163 |
| **Total Restricted** | 0 | 0 | 1,666,882 | 1,666,882 |
| **Assigned to:** | | | | |
| Encumbrances | 995,543 | 0 | 0 | 995,543 |
| **Total Assigned** | 995,543 | 0 | 0 | 995,543 |
| **Unassigned (Deficit)** | 13,796,224 | (99,417) | (91,768) | 13,605,039 |
| **Total Fund Balance** | $14,791,767 | ($99,417) | $1,575,114 | $16,267,464 |

## Note 16 – Contingencies

### Grants

The Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2015.

### Litigation

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

## Note 17 – Change in Accounting Principles

The Center adopted the provisions of GASB Statement Number 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement Number 68. GASB Statement Number 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 and have been implemented by the Center. GASB Statement Number 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources of its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

## Note 18 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Center implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

| | |
|---|---|
| Net position June 30, 2014 | $23,288,496 |
| Adjustments: | |
| Net Pension Liability | (46,317,392) |
| Deferred Outflow - Payments Subsequent to Measurement Date | 2,508,329 |
| Restated Net Position June 30, 2014 | ($20,520,567) |

Other than employer contributions subsequent to the measurement date, the Center made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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# REQUIRED SUPPLEMENTARY INFORMATION

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of the Center's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

| | 2014 | 2013 |
|---|---|---|
| Center's Proportion of the Net Pension Liability | 0.12080223% | 0.12080223% |
| Center's Proportionate Share of the Net Pension Liability | $29,383,298 | $34,906,932 |
| Center's Covered-Employee Payroll | $13,292,092 | $13,820,008 |
| Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 221.06% | 252.58% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 69.30% |

(1) - Information prior to 2013 is not available

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of the Center's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

| | 2014 | 2013 |
|---|---|---|
| Center's Proportion of the Net Pension Liability | 0.191822% | 0.191822% |
| Center's Proportionate Share of the Net Pension Liability | $9,708,002 | $11,410,460 |
| Center's Covered-Employee Payroll | $5,630,281 | $5,073,194 |
| Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 172.42% | 224.92% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.70% | 65.52% |

(1) - Information prior to 2013 is not available

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of Center Contributions
State Teachers Retirement System of Ohio
Last Nine Fiscal Years (1)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $1,984,298 | $1,727,972 | $1,796,601 | $1,881,000 | $1,726,279 |
| Contributions in Relation to the Contractually Required Contribution | (1,984,298) | (1,727,972) | (1,796,601) | (1,881,000) | (1,726,279) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 | $0 |
| Center Covered-Employee Payroll | $14,173,557 | $13,292,092 | $13,820,008 | $14,469,231 | $13,279,069 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% |

(1) - Information prior to 2007 is not available

| 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|
| $2,095,029 | $1,677,252 | $1,690,754 | $1,530,779 |
| (2,095,029) | (1,677,252) | (1,690,754) | (1,530,779) |
| $0 | $0 | $0 | $0 |
| $16,115,608 | $12,901,938 | $13,005,800 | $11,775,223 |
| 13.00% | 13.00% | 13.00% | 13.00% |

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of Center Contributions
School Employees Retirement System of Ohio
Last Nine Fiscal Years (1)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $856,515 | $780,357 | $702,130 | $736,573 | $422,384 |
| Contributions in Relation to the Contractually Required Contribution | (856,515) | (780,357) | (702,130) | (736,573) | (422,384) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 | $0 |
| Center Covered-Employee Payroll | $6,498,596 | $5,630,281 | $5,073,194 | $5,476,379 | $3,360,255 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% |

(1) - Information prior to 2007 is not available

| 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|
| $457,076 | $428,532 | $425,492 | $474,457 |
| (457,076) | (428,532) | (425,492) | (474,457) |
| $0 | $0 | $0 | $0 |
| $3,375,746 | $4,355,000 | $4,332,912 | $4,442,481 |
| 13.54% | 9.84% | 9.82% | 10.68% |

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**
**MONTGOMERY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| Federal Grantor/ Pass Through Grantor Program Title | Federal CFDA Number | Receipts | Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| *Passed through Ohio Department of Education* | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | $51,292 | $51,292 |
| National School Lunch Program | 10.555 | 87,799 | 87,799 |
| Total Child Nutrition Cluster | | 139,091 | 139,091 |
| Total U.S. Department of Agriculture | | 139,091 | 139,091 |
| **U.S. Department of Education** | | | |
| *Passed through Ohio Department of Education* | | | |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | 1,952,566 | 2,063,546 |
| Special Education - Preschool Grants | 84.173 | 48,936 | 50,537 |
| Total Special Education Cluster | | 2,001,502 | 2,114,083 |
| Special Education - State Personnel Development | 84.323 | 47,115 | 47,705 |
| Improving Teacher Quality State Grants | 84.367 | 126,743 | 127,396 |
| ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 | 399,426 | 377,607 |
| Race to the Top - Early Learning Challenge | 84.412 | 119,493 | 108,321 |
| Total U.S. Department of Education | | 2,694,279 | 2,775,112 |
| **Corporation for National and Community Service** | | | |
| *Passed through Ohio Commission on Service and Volunteerism* | | | |
| AmeriCorps | 94.006 | 204,976 | 208,722 |
| Total Corporation for National and Community Service | | 204,976 | 208,722 |
| Total Federal Financial Assistance | | $3,038,346 | $3,122,925 |

*See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.*

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

## NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Montgomery County Educational Service Center's (the Center's) federal award programs' receipts and expenditures. The Schedule has been prepared on the cash basis of accounting.

## NOTE B - CHILD NUTRITION CLUSTER

The Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first.

## NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

Montgomery County Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montgomery County Educational Service Center, Montgomery County, (the Center) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 6, 2016, wherein we noted the Center adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

***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 opinion 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

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www.ohioauditor.gov

### ***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

### ***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 communication is not suitable for any other purpose.

Dave Yost

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

April 6, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Montgomery County Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

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

We have audited Montgomery County Educational Service Center's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Montgomery County Educational Service Center's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Center's major federal program.

***Management's Responsibility***

The Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to opine on the Center's compliance for the Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on The Major Federal Program***

In our opinion, Montgomery County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

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**www.ohioauditor.gov**

***Report on Internal Control Over Compliance***

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

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

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Dave Yost

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

April 6, 2016

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**
**MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS**
**OMB CIRCULAR A -133 § .505**
**JUNE 30, 2015**

## 1. SUMMARY OF AUDITOR'S RESULTS

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

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

### FINDING NUMBER 2015-001

**Material Weakness - Intergovernmental Receivable Error**

The Center prepared its annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The Center's fiscal year 2015 financial statements contained the following error, which required adjustment to the financial statements:

> In other governmental funds, intergovernmental receivable and the related deferred inflow of resources was understated by $52,499 due to an incorrect amount utilized in the calculation of the receivable related to Miscellaneous Federal Grants Fund. This error should have also been recognized as revenue on a full accrual basis; therefore, the governmental activities intergovernmental receivable and related program revenue for operating grants and contributions was also understated by $52,499. The Center's financial statements were adjusted to correct this error.

Failure to review the Center's annual financial report could result in materially misstated financial statements.

The Center should establish and implement procedures to review its annual GAAP financial statements to verify that the financial statements are presented in accordance with applicable accounting guidelines and principles, including reporting the proper receivable amount for all grants.

**Officials' Response**:

We did not receive a response from Center Officials to this finding.

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

**MONTGOMERY 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**
**MAY 10, 2016**