



*SOUTH CENTRAL OHIO EDUCATIONAL
SERVICE CENTER*

SCIOTO COUNTY

SINGLE AUDIT

For the Fiscal Year Ended June 30, 2015

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





Dave Yost • Auditor of State

Board of Education
South Central Ohio Educational Service Center
522 Glenwood Avenue
New Boston, OH 45662

We have reviewed the *Independent Auditor's Report* of the South Central Ohio Educational Service Center, Scioto County, prepared by J.L. Uhrig and Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The South Central Ohio Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 1, 2016

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Independent Auditor's Report

South Central Ohio Educational Service Center
522 Glenwood Avenue
New Boston, Ohio 45662

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of South Central Ohio Educational Service Center (Educational Service Center), Scioto County as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with 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' *Governmental 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 Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Educational Service 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, the major fund, and the aggregate remaining fund information of the South Central Ohio Educational Service Center, Scioto County 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 3 and Note 11 to the financial statements, during the year ended June 30, 2015, the School District adopted Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68*, and as a result restated their June 30, 2014 net position of the governmental activities. 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 on pages 4-10 and schedules of net pension liabilities and pension contributions on pages 48-53, 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 inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Supplemental and Other Information

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

The budgetary comparison information on pages 54-56 presents additional analysis and is not a required part of the basic financial statements. The Schedule of Federal Award 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 also not a required part of the financial statements.

The budgetary comparison information and schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this budgetary comparison information and schedule to the auditing procedures 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 budgetary comparison information and schedule are 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 a report dated January 11, 2016, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

January 11, 2016

South Central Ohio Educational Service Center

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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

Financial Highlights

- In total, net position increased \$169,922 which represents an increase from the prior fiscal year. The biggest difference reflected on the Educational Service Center's Statement of Net Position was due to the implementation of GASB 68.
- General revenues accounted for \$918,072 of total revenues. Program specific revenues in the form of charges for services, operating and capital grants, and contributions accounted for \$9,938,096 of total revenues of \$10,856,168.
- The Educational Service Center had \$10,686,246 in expenses related to governmental activities; these expenses were offset by \$9,938,096 of program specific charges for services, grants, and contributions.

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

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Reporting the Educational Service Center as a Whole

One of the most important questions asked about the Educational Service Center is “How did we do financially during fiscal year 2015?” The Statement of Net Position and the Statement of Activities, which appear first in the Educational Service Center’s financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the Educational Service Center has only one kind of activity:

- Governmental Activities – All of the Educational Service Center’s educational programs and services are reported here including instruction and support services, which include operation and maintenance of plant and pupil transportation.

Reporting the Educational Service Center’s Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center’s major funds begins on page eight. Fund financial statements provide detailed information about the Educational Service Center’s major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center’s most significant funds.

Governmental Funds – Most of the Educational Service Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal 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 Educational Service Center’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statements of Activities) and governmental funds is reconciled in the financial statements.

South Central Ohio Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

Fiduciary Funds – The Educational Service Center's fiduciary funds are agency funds. All of the Educational Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net position for fiscal years 2015 and 2014:

	2015	Governmental Activities (Restated) 2014	Increase/ (Decrease)
<u>Assets:</u>			
Current Assets	\$2,644,229	\$2,543,825	\$100,404
Capital Assets, Net	1,334,124	1,355,951	(21,827)
<i>Total Assets</i>	<u>3,978,353</u>	<u>3,899,776</u>	<u>78,577</u>
<u>Deferred Outflows of Resources:</u>			
Pension	1,127,499	892,161	235,338
<u>Liabilities:</u>			
Other Liabilities	1,029,013	1,042,137	(13,124)
Long-Term Liabilities:			
Due Within One Year	122,054	115,980	6,074
Due In More Than One Year:			
Net Pension Liability	14,911,236	17,716,467	(2,805,231)
Other Amounts	553,282	291,523	261,759
<i>Total Liabilities</i>	<u>16,615,585</u>	<u>19,166,107</u>	<u>(2,550,522)</u>
<u>Deferred Inflows of Resource:</u>			
Pension	2,694,515	0	2,694,515
<u>Net Position:</u>			
Net Investment in Capital Assets	1,334,124	1,355,951	(21,827)
Restricted	35,107	64,993	(29,886)
Unrestricted	(15,573,479)	(15,795,114)	221,635
<i>Total Net Position</i>	<u>(\$14,204,248)</u>	<u>(\$14,374,170)</u>	<u>\$169,922</u>

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

During 2015, the Educational Service 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 Educational Service 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 Educational Service 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 Educational Service 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.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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 Educational Service 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 Educational Service 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 \$2,450,136 to \$(14,374,170).

Total liabilities decreased \$2,550,522 for fiscal year 2015 when compared to the prior fiscal year, of which \$2,805,231 is from the long-term Net Pension Liability. This is the result of the pension investment revenues exceeding expectations.

Net investment in capital assets of governmental activities decreased \$21,827 which is insignificant. Restricted net position, when viewed alone, experienced a decrease of \$29,886 when compared to the prior fiscal year.

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

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Change in Net Position

	Governmental	Activities	Increase/ (Decrease)
	2015	2014	
<u>Revenues:</u>			
Program Revenues:			
Charges for Services	\$9,247,055	\$8,674,962	\$572,093
Operating Grants, Contributions, and Interest	691,041	633,642	57,399
Total Program Revenues	9,938,096	9,308,604	629,492
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs	893,563	819,326	74,237
Investment Earnings	10,165	4,900	5,265
Miscellaneous	14,344	15,294	(950)
Total General Revenues	918,072	839,520	78,552
Total Revenues	10,856,168	10,148,124	708,044
<u>Program Expenses:</u>			
Instruction:			
Regular	284,037	295,404	(11,367)
Special	4,876,418	4,680,034	196,384
Adult/Continuing	180,785	152,781	28,004
Support Services:			
Pupils	2,451,316	2,299,228	152,088
Instructional Staff	1,516,047	1,471,767	44,280
Board of Education	30,017	35,382	(5,365)
Administration	663,000	667,659	(4,659)
Fiscal	304,813	296,862	7,951
Operation and Maintenance of Plant	233,767	266,166	(32,399)
Central	146,046	130,103	15,943
Total Expenses	10,686,246	10,295,386	390,860
Change in Net Position	169,922	(147,262)	\$317,184
<i>Net Position at Beginning of Year</i>	(14,374,170)	N/A	
<i>Net Position at End of Year</i>	(\$14,204,248)	(\$14,374,170)	

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 functional expenses still include pension expense of \$892,161 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 expense of \$641,045. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

South Central Ohio Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

Total 2015 program expenses under GASB 68	\$10,686,246
Pension expense under GASB 68	(641,045)
2015 contractually required contribution	<u>987,099</u>
Adjusted 2015 program expenses	11,032,300
Total 2014 program expenses under GASB 27	<u>10,295,386</u>
Change in program expenses not related to pension	<u><u>\$736,914</u></u>

Program revenues, which are primarily represented by charges for tuition and fees, along with operating grants, contributions and interest were \$9,938,096 of total revenues for fiscal year 2015.

As stated previously, general revenues represent \$918,072 of the Educational Service Center's total revenues, and of this amount, \$893,563 consists of grants and entitlements not restricted to specific programs. Other revenue sources, such as investment earnings and miscellaneous, are not significant.

As should be expected, the major program expense for governmental activities is instruction, which accounts for \$5,341,240 of all governmental expenses of \$10,686,246. Other programs which support the instruction process, including pupils and instructional staff account for \$3,967,363 of governmental expenses. Special instruction increased \$196,384 and support services-pupils increased \$152,088 from the prior fiscal year.

The Educational Service Center's Funds

Information about the Educational Service Center's most significant funds starts on page 11. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,858,534 and expenditures of \$10,742,640.

Capital Assets

At the end of fiscal year 2015, the Educational Service Center had \$1,334,124 invested in capital assets (net of accumulated depreciation), a decrease of \$21,827. Additions to capital assets included land and miscellaneous equipment. For further information regarding the Educational Service Center's capital assets, refer to Note 9 to the basic financial statements.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information, contact Andrew T. Riehl, Treasurer, South Central Ohio Educational Service Center, 522 Glenwood Avenue, New Boston, Ohio 45662, or by calling 740-354-0234.

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South Central Ohio Educational Service Center

Statement of Net Position

June 30, 2015

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,470,956
Accounts Receivable	4,325
Accrued Interest Receivable	1,528
Intergovernmental Receivable	167,420
Capital Assets:	
Land	78,460
Depreciable Capital Assets, Net	<u>1,255,664</u>
<i>Total Assets</i>	<u>3,978,353</u>
<u>Deferred Outflows of Resources:</u>	
Pension	<u>1,127,499</u>
<u>Liabilities:</u>	
Accounts Payable	17,613
Accrued Wages and Benefits Payable	790,076
Intergovernmental Payable	178,426
Matured Compensated Absences Payable	42,898
Long-Term Liabilities:	
Due Within One Year	122,054
Due in More Than One Year:	
Net Pension Liability (See Note 11)	14,911,236
Other Amounts	<u>553,282</u>
<i>Total Liabilities</i>	<u>16,615,585</u>
<u>Deferred Inflows of Resources:</u>	
Pension	<u>2,694,515</u>
<u>Net Position:</u>	
Net Investment in Capital Assets	1,334,124
Restricted for:	
Race to the Top Program	5,931
State and Federal Grants	29,176
Unrestricted (Deficit)	<u>(15,573,479)</u>
<i>Total Net Position (Deficit)</i>	<u><u>(\$14,204,248)</u></u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2015

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$284,037	\$0	\$53,109	(\$230,928)
Special	4,876,418	5,577,272	50,095	750,949
Adult/Continuing	180,785	15,819	145,779	(19,187)
Support Services:				
Pupils	2,451,316	2,097,563	53,338	(300,415)
Instructional Staff	1,516,047	1,341,039	357,729	182,721
Board of Education	30,017	0	0	(30,017)
Administration	663,000	177,188	23,794	(462,018)
Fiscal	304,813	0	0	(304,813)
Operation and Maintenance of Plant	233,767	0	5,397	(228,370)
Central	146,046	38,174	1,800	(106,072)
Total Governmental Activities	\$10,686,246	\$9,247,055	\$691,041	(748,150)
<u>General Revenues:</u>				
				893,563
				10,165
				14,344
Total General Revenues				918,072
				169,922
				(14,374,170)
				(\$14,204,248)

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,448,282	\$22,674	\$2,470,956
Receivables:			
Accounts	4,325	0	4,325
Intergovernmental	80,480	86,940	167,420
Accrued Interest	1,528	0	1,528
Interfund	21,854	0	21,854
<i>Total Assets</i>	<u>\$2,556,469</u>	<u>\$109,614</u>	<u>\$2,666,083</u>
<u>Liabilities:</u>			
Accounts Payable	\$2,758	\$14,855	\$17,613
Accrued Wages and Benefits Payable	766,152	23,924	790,076
Intergovernmental Payable	169,893	8,533	178,426
Interfund Payable	0	21,854	21,854
Matured Compensated Absences Payable	42,898	0	42,898
<i>Total Liabilities</i>	<u>981,701</u>	<u>69,166</u>	<u>1,050,867</u>
<u>Deferred Inflows of Resources :</u>			
Unavailable Revenue	384	4,956	5,340
<u>Fund Balances:</u>			
Restricted	0	44,014	44,014
Assigned	270,139	0	270,139
Unassigned (Deficit)	1,304,245	(8,522)	1,295,723
<i>Total Fund Balances</i>	<u>1,574,384</u>	<u>35,492</u>	<u>1,609,876</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,556,469</u>	<u>\$109,614</u>	<u>\$2,666,083</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2015

Total Governmental Fund Balances \$1,609,876

***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. These assets consist of:

Land	78,460	
Capital assets	2,250,322	
Accumulated depreciation	(994,658)	
Total		1,334,124

Some of the Educational Service Center's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds.

Intergovernmental	4,956	
Accrued Interest	384	
Total		5,340

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.

Deferred Outflows - Pension	1,127,499	
Deferred Inflows - Pension	(2,694,515)	
Net Pension Liability	(14,911,236)	
Total		(16,478,252)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences	(675,336)	
Total		(\$14,204,248)

Net Position of Governmental Activities

(\$14,204,248)

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$893,563	\$658,605	\$1,552,168
Investment Earnings	10,337	0	10,337
Tuition and Fees	7,323,433	18,000	7,341,433
Customer Sales and Service	1,905,622	0	1,905,622
Contributions and Donations	34,630	0	34,630
Miscellaneous	13,487	857	14,344
<i>Total Revenues</i>	<u>10,181,072</u>	<u>677,462</u>	<u>10,858,534</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	224,395	55,503	279,898
Special	4,900,828	34,547	4,935,375
Adult/Continuing	21,787	158,618	180,405
Support Services:			
Pupils	2,388,465	47,343	2,435,808
Instructional Staff	1,157,216	368,847	1,526,063
Board of Education	30,888	0	30,888
Administration	645,533	32,640	678,173
Fiscal	300,574	0	300,574
Operation and Maintenance of Plant	224,700	5,500	230,200
Central	140,456	1,800	142,256
Capital Outlay	3,000	0	3,000
<i>Total Expenditures</i>	<u>10,037,842</u>	<u>704,798</u>	<u>10,742,640</u>
<i>Net Change in Fund Balances</i>	143,230	(27,336)	115,894
<i>Fund Balances at Beginning of Year</i>	<u>1,431,154</u>	<u>62,828</u>	<u>1,493,982</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,574,384</u></u>	<u><u>\$35,492</u></u>	<u><u>\$1,609,876</u></u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$115,894

***Amounts reported for governmental activities in the
 Statement of Activities are different because:***

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Land additions	3,000	
Capital asset additions	20,192	
Depreciation expense	(45,019)	
Excess of depreciation expense over capital outlay		(21,827)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are therefore recorded as deferred inflows of resources in the governmental funds.

Deferred inflows of resources changed by these amounts this fiscal year:

Intergovernmental	(2,194)	
Interest	(172)	
Total		(2,366)

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 987,099

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. (641,045)

Some items 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. These activities consist of:

Increase in compensated absences payable	(267,833)
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Change in Net Position of Governmental Activities \$169,922

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	<u>Agency Funds</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$41,106</u></u>
<u>Liabilities:</u>	
Undistributed Monies	<u><u>\$41,106</u></u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

The South Central Ohio Educational Service Center (the “Educational Service Center”), is located in Portsmouth, Ohio, the county seat of Scioto County. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, Wheelersburg, and Manchester Local School Districts, as well as the Scioto County Career Technical Center. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 65 classified, 107 certified, and two administrative personnel that provide services to the local, city, and joint vocational 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 Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the South Central Ohio Educational Service Center, this includes general operations and student developmental activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Educational Service Center has no component units.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The Educational Service Center participates in five organizations, three of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as a related organization. Information about these organizations is presented in Note 15 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

South Central Ohio Computer Association Regional Council of Governments
(SCOCARCoG)

Family and Children First Council of Scioto County

Coalition of Rural and Appalachian Schools

Public Entity Shared Risk Pool:

Optimal Health Initiatives Consortium

Related Organization:

Scioto County Career Technical Center

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County. The Family and Children First Council provides services to disadvantaged school age children. This organization is presented as an agency fund within the Educational Service Center's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 Educational Service Center's accounting policies are described below.

Basis of Presentation

The Educational Service 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.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The Educational Service Center, however, has no activities which are reported as business-type.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The Statement of Net Position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service 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 Educational Service Center.

Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The Educational Service 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 Educational Service Center fall within two categories: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service 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 and deferred outflows and liabilities and deferred inflows is reported as fund balance.

The following is the Educational Service Center's major governmental fund:

General Fund – The General Fund is the operating fund of the Educational Service 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 Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

The nonmajor governmental funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations and individuals.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the Educational Service Center are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

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 and deferred outflows of resources and 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements 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/outflows of resources, and in the presentation of expenses versus expenditures.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 are collectible 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 Educational Service Center, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the Educational Service 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 Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service 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: tuition and fees, customer sales, 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 Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

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 Educational Service Center, deferred inflows of resources include pension and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 11).

For the Educational Service Center unavailable revenue includes interest and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenses/Expenditures

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 cost, such as depreciation and amortization, are not recognized in the governmental funds.

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.

Cash and Cash Equivalents

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

During fiscal year 2015, the Educational Service Center's investments were limited to Federal Home Loan Bank Bonds and negotiable certificates of deposit. Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Educational Service Center 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 \$10,337, which includes \$8,271 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as Cash Equivalents.

Capital Assets

The Educational Service Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. These assets generally 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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service 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 reported capital assets, except land, are depreciated. Depreciation of the building is computed using the straight-line method over fifty years and furniture, fixtures and equipment is computed using the straight-line method over five to 20 years.

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 Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probably that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

On the governmental fund financial statements, compensated absences are recognized as a liability 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 "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

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

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 and net pension liability 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 in the current fiscal year.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payable”. These amounts are eliminated in the governmental activities column of the Statement of Net Position.

Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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 and are eliminated from the statement of activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance

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

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center's Board. Those committed amounts cannot be used for any other purpose unless the Educational Service Center's Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent amounts assigned by the Treasurer for the encumbered amounts for outstanding obligations.

The Treasurer has been given authority to assign amounts for the purposes by the Educational Service Center's Board.

Unassigned

Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

Net Position

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 enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include State grants restricted to expenditures for specified purposes. The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Estimates

The preparation of 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.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the Educational Service 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	\$2,450,136
Adjustments:	
Net Pension Liability	(17,716,467)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>892,161</u>
Restated Net Position June 30, 2014	<u><u>(\$14,374,170)</u></u>

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

NOTE 4 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Education Service 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:

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Fund Balances	General Fund	Nonmajor Governmental Funds	Total
<i>Restricted for</i>			
Alternative School	\$0	\$15,181	\$15,181
Miscellaneous Grants	0	6,472	6,472
Preschool	0	7,926	7,926
Race to the Top	0	14,435	14,435
<i>Total Restricted</i>	<u>0</u>	<u>44,014</u>	<u>44,014</u>
<i>Assigned to</i>			
Purchases on Order	270,139	0	270,139
<i>Unassigned (Deficit)</i>	<u>1,304,245</u>	<u>(8,522)</u>	<u>1,295,723</u>
<i>Total Fund Balances</i>	<u><u>\$1,574,384</u></u>	<u><u>\$35,492</u></u>	<u><u>\$1,609,876</u></u>

NOTE 5 - ACCOUNTABILITY

At June 30, 2015, the Alternative School, ABLE Grant, and Miscellaneous Grant Special Revenue Funds had deficit fund balances of \$6,747, \$652, and \$1,123, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories.

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

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

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio Local Governments;
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.

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.

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

	Fair Value	Maturities in Years 3 - 4	S&P Rating
Federal Home Loan Bank Bonds	\$275,300	\$275,300	AA+
Negotiable Certificates of Deposit	640,090	640,090	N/A
Totals	\$915,390	\$915,390	

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the Educational Service Center, the Educational Service Center will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk

The Educational Service Center's investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated or issued by United States Government sponsored enterprises.

Concentration of Credit Risk

The Educational Service Center places no limit on the amount it may invest in any one issuer. The Educational Service Center's holds 69.93 percent of the investments in negotiable certificates of deposits and 30.07 percent in Federal Home Loan Bank Bonds

NOTE 7 - STATE AND LOCAL EDUCATIONAL SERVICE CENTER FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and local school district that entered into an agreement with the Educational Service 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 Educational Service Center's city and local 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 Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service 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 Educational Service Center.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2015, consisted of accounts, intergovernmental grants, accrued interest and interfund amounts. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Charges to Local School Districts and Other Governmental Entities	\$80,480
Regional School Improvement Team	11,512
Race to the Top Grant	50,141
Adult Basic Literacy Education Grant	1,248
Ohio Teacher Evaluation System Grant	12,475
Ohio Alternative Education Challenge Grant	2,978
Early Childhood Special Education, IDEA Grant	8,586
Total Intergovernmental Receivable	<u><u>\$167,420</u></u>

NOTE 9 - CAPITAL ASSETS

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

	<u>Balance at</u> <u>6/30/14</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>6/30/15</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	<u>\$75,460</u>	<u>\$3,000</u>	<u>\$0</u>	<u>\$78,460</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	1,207,570	0	0	1,207,570
Furniture, Fixtures and Equipment	<u>1,022,560</u>	<u>20,192</u>	<u>0</u>	<u>1,042,752</u>
Total Capital Assets				
Being Depreciated	<u>2,230,130</u>	<u>20,192</u>	<u>0</u>	<u>2,250,322</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(36,227)	(24,151)	0	(60,378)
Furniture, Fixtures and Equipment	<u>(913,412)</u>	<u>(20,868)</u>	<u>0</u>	<u>(934,280)</u>
Total Accumulated Depreciation	<u>(949,639)</u>	<u>(45,019)</u> *	<u>0</u>	<u>(994,658)</u>
Total Capital Assets Being				
Depreciated, Net	<u>1,280,491</u>	<u>(24,827)</u>	<u>0</u>	<u>1,255,664</u>
Governmental Activities				
Capital Assets, Net	<u><u>\$1,355,951</u></u>	<u><u>(\$21,827)</u></u>	<u><u>\$0</u></u>	<u><u>\$1,334,124</u></u>

* Depreciation expense was charged to governmental functions as follows:

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Instruction:	
Regular	\$1,354
Special	19,456
Adult/Continuing	1,618
Support Services:	
Pupils	7,719
Instructional Staff	4,896
Administration	1,105
Fiscal	1,444
Operation and Maintenance of Plant	390
Central	7,037
Total Depreciation Expense	<u><u>\$45,019</u></u>

NOTE 10 - RISK MANAGEMENT

Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Educational Service Center contracted with School Insurance Consultants, LLC (SIC) for insurance consulting services. The premium paid to SIC for fiscal year 2015 was \$2,500. The Educational Service Center also pays to the awarded insurance agency an insurance premium that is based on types of coverage, limits of coverage, and deductibles that it selects. For the fiscal year, the Educational Service Center contracted with Argonaut Insurance Company for liability, property, and automobile liability insurance coverage and paid its premium to Governmental Underwriters of America, Inc., an agent for Argonaut Insurance Company.

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

Workers' Compensation

The Educational Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Health Care Benefits

The Educational Service Center participates in the Optimal Health Initiatives Consortium (the "Consortium"), a public entity shared risk pool (Note 15), consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 11 – 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 Educational Service Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Educational Service Center’s obligation for this liability to annually required payments. The Educational Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Educational Service 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 intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 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 Educational Service Center’s contractually required contribution to SERS was \$239,244 for fiscal year 2015. Of this amount \$22,577 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 Educational Service 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 Educational Service Center's contractually required contribution to STRS was \$747,855 for fiscal year 2015. Of this amount \$84,093 is reported as an intergovernmental payable.

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 Educational Service Center's proportion of the net pension liability was based on the Educational Service 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,824,563	\$12,086,673	\$14,911,236
Proportion of the Net Pension Liability	0.0558110%	0.04969142%	
Pension Expense	\$166,710	\$474,335	\$641,045

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$24,040	\$116,360	\$140,400
Educational Service Center contributions subsequent to the measurement date	<u>239,244</u>	<u>747,855</u>	<u>987,099</u>
Total Deferred Outflows of Resources	<u>\$263,284</u>	<u>\$864,215</u>	<u>\$1,127,499</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$458,435</u>	<u>\$2,236,080</u>	<u>\$2,694,515</u>

\$987,099 reported as deferred outflows of resources related to pension resulting from Educational

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Service 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	(\$108,538)	(\$529,930)	(\$638,468)
2017	(108,538)	(529,930)	(638,468)
2018	(108,538)	(529,930)	(638,468)
2019	(108,781)	(529,930)	(638,711)
Total	(\$434,395)	(\$2,119,720)	(\$2,554,115)

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 investment 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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

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 Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the 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.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Educational Service Center's proportionate share of the net pension liability	\$4,029,812	\$2,824,563	\$1,810,844

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:

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:

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$17,303,390	\$12,086,673	\$7,675,086

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2015, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 12 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 Educational Service Center's surcharge obligation was \$30,210.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$45,095, \$30,034, and \$23,709, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org 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 Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$51,765, and \$50,240, respectively. The full amount has been contributed for all three fiscal years.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through American United Life Insurance Company.

Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both 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 14 - LONG-TERM OBLIGATIONS

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

	Amount Outstanding 6/30/14	Additions	Deductions	Amount Outstanding 6/30/15	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Net Pension Liability:					
STRS	\$14,397,566	\$0	\$2,310,893	\$12,086,673	\$0
SERS	3,318,901	0	494,338	2,824,563	0
Total Net Pension Liability	17,716,467	0	2,805,231	14,911,236	0
Compensated Absences	407,503	426,162	158,329	675,336	122,054
Total Governmental Activities					
Long-Term Obligations	\$18,123,970	\$426,162	\$2,963,560	\$15,586,572	\$122,054

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the General Fund and the Alternative School, Adult Basic Literacy Education, and Race to the Top Special Revenue Funds. For additional information related to the net pension liability see note 11.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, AND RELATED ORGANIZATION

Jointly Governed Organizations

South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG)

The Educational Service Center is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a regional council of governments. SCOCARCoG is an association of public Educational Service Centers within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Educational Service Centers. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers. The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting and designating management. Each Educational Service Center's degree of control is limited to its representation on the Board. The Educational Service Center paid SCOCARCoG \$63,481 for services provided during the fiscal year. Financial information can be obtained from the SCOCA Regional Council of Governments, Sandra Benson, Fiscal Officer, at P.O. Box 596, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Family and Children First Council of Scioto County

The Family and Children First Council of Scioto County (the “Council”) is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Developmental Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local Educational Service Centers with the largest number of pupils residing in the County; a school superintendent representing all other Educational Service Centers in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County’s Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the “Education of the Handicapped Act Amendments of 1988” and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2015. Continued existence of the Council is not dependent on the Educational Service Center’s continued participation, no equity interest exists, and no debt is outstanding. The Council exercises total control over the operations including budgeting, appropriating, contracting and designating management. Each member’s degree of control is limited to its representation on the Council. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 522 Glenwood Avenue, New Boston, Ohio 45662.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of 14 members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for School District administrative personnel; gathers data regarding education conditions in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for School District personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Board exercises total control over the operations of the Coalition including budgeting, appropriating, contracting and designating management. Each School District’s degree of control is limited to its representation on the Board. The Educational Service Center paid \$325 to the Coalition for services provided during the fiscal year.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Public Entity Shared Risk Pool

Optimal Health Initiatives Consortium

The Educational Service Center is a member of the Optimal Health Initiatives Consortium (the “Consortium”), a public entity shared risk pool, consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. The overall objective of the Consortium is to enable its members to purchase employee benefits and related products and services using the Consortium’s economies of scale to create cost-savings. The Council’s business and affairs are managed by an Executive Board of Trustees, consisting of the chairperson of each division’s board of trustees and the chairperson of the Butler Health Plan. The participants pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the fiscal agent, Jennifer Jostworth, CoWorth Financial Services at 10999 Reed Hartman Highway, Suite 304-E, Cincinnati, Ohio 45242.

Related Organization

Scioto County Career Technical Center

The Scioto County Career Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education. Two representatives are appointed by the Portsmouth City School District and three representatives are appointed by the South Central Ohio Educational Service Center. The Scioto County Career Technical Center exposes students to job training, leading to employment upon graduation from high school. There is no financial benefit/burden relationship between the Scioto County Career Technical Center and the South Central Ohio Educational Service Center, nor can the South Central Ohio Educational Service Center impose their will on the Scioto County Career Technical Center.

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2015, interfund receivables and payables that resulted from various interfund transactions totaled \$21,854 from the General Fund to Nonmajor Governmental Funds.

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 17 - CONTINGENCIES

Grants

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

State Funding

The Educational Service Center is funded by the State Board of Education from State Funds for the cost of Part (A) of the budget. Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the Educational Service District's supervision) is apportioned by the State Board of Education from the local school districts to which the Educational Service District provides services from payments made under the State's foundation program. Simultaneously, \$26.82 times the sum of the ADM is paid by the State Board of Education from State Funds to Educational Service District.

Litigation

The Educational Service Center is not party to any legal proceedings as of June 30, 2015.

NOTE 18 – SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrances are commitments related to the unperformed contracts for goods for services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$278,148
Nonmajor Governmental Funds	41,445
Total	<u><u>\$319,593</u></u>

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

	<u>2014</u>	<u>2013</u>
Educational Service Center's Proportion of the Net Pension Liability	0.0558110%	0.0558110%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$2,824,563	\$3,318,901
Educational Service Center's Covered-Employee Payroll	\$1,671,802	\$1,493,893
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	168.95%	222.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

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

	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.04969142%	0.04969142%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$12,086,673	\$14,397,566
Educational Service Center's Covered-Employee Payroll	\$5,080,377	\$5,024,046
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	237.91%	286.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

South Central Ohio Educational Service Center
 Required Supplementary Information
 Schedule of Educational Service Center Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$239,244	\$231,712	\$206,755	\$202,403
Contributions in Relation to the Contractually Required Contribution	<u>(239,244)</u>	<u>(231,712)</u>	<u>(206,755)</u>	<u>(202,403)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$1,815,207	\$1,671,802	\$1,493,893	\$1,504,858
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$193,157	\$209,192	\$131,042	\$128,543	\$125,676	\$129,439
<u>(193,157)</u>	<u>(209,192)</u>	<u>(131,042)</u>	<u>(128,543)</u>	<u>(125,676)</u>	<u>(129,439)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,536,647	\$1,544,992	\$1,331,727	\$1,308,996	\$1,176,742	\$1,223,431
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

South Central Ohio Educational Service Center
 Required Supplementary Information
 Schedule of Educational Service Center Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$747,855	\$660,449	\$653,126
Contributions in Relation to the Contractually Required Contribution	<u>(747,855)</u>	<u>(660,449)</u>	<u>(653,126)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$5,341,821	\$5,080,377	\$5,024,046
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$599,943	\$565,725	\$546,021	\$543,827	\$512,864	\$438,554	\$466,104
<u>(599,943)</u>	<u>(565,725)</u>	<u>(546,021)</u>	<u>(543,827)</u>	<u>(512,864)</u>	<u>(438,554)</u>	<u>(466,104)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,614,946	\$4,351,731	\$4,200,162	\$4,183,285	\$3,945,108	\$3,373,492	\$3,585,415
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

South Central Ohio Educational Service Center
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2015

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$850,000	\$893,563	\$893,563	\$0
Investment Earnings	6,000	8,439	8,439	0
Tuition and Fees	7,330,145	7,330,961	7,330,961	0
Customer Sales and Service	1,850,000	1,857,570	1,857,570	0
Contributions and Donations	29,000	34,630	34,630	0
<i>Total Revenues</i>	<u>10,065,145</u>	<u>10,125,163</u>	<u>10,125,163</u>	<u>0</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	262,085	223,277	223,277	0
Special	5,087,151	4,942,978	4,942,978	0
Adult/Continuing	18,630	21,068	21,068	0
Support Services:				
Pupils	2,328,348	2,393,838	2,393,838	0
Instructional Staff	1,020,611	1,140,950	1,140,950	0
Board of Education	32,090	37,174	37,174	0
Administration	655,510	656,041	656,041	0
Fiscal	290,559	313,795	313,795	0
Operation and Maintenance of Plant	258,004	415,908	415,908	0
Central	144,385	167,714	167,714	0
Capital Outlay	0	3,000	3,000	0
<i>Total Expenditures</i>	<u>10,097,373</u>	<u>10,315,743</u>	<u>10,315,743</u>	<u>0</u>
Excess of Revenues Under Expenditures	<u>(32,228)</u>	<u>(190,580)</u>	<u>(190,580)</u>	<u>0</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Receipts	7,000	13,487	13,487	0
Advances In	360,000	491,334	491,334	0
Advances Out	(310,000)	(509,106)	(509,106)	0
<i>Total Other Financing Sources (Uses)</i>	<u>57,000</u>	<u>(4,285)</u>	<u>(4,285)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	24,772	(194,865)	(194,865)	0
<i>Fund Balance at Beginning of Year</i>	2,252,453	2,252,453	2,252,453	0
Prior Year Encumbrances Appropriated	110,474	110,474	110,474	0
<i>Fund Balance at End of Year</i>	<u>\$2,387,699</u>	<u>\$2,168,062</u>	<u>\$2,168,062</u>	<u>\$0</u>

See accompanying budgetary notes

South Central Ohio Educational Service Center

Budgetary Notes

For the Fiscal Year Ended June 30, 2015

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

South Central Ohio Educational Service Center

Budgetary Notes

For the Fiscal Year Ended June 30, 2015

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Investments are recorded at fair value (GAAP basis) rather than cost (budget basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balances</u>	
GAAP Basis	<u>General</u> \$143,230
Adjustments:	
Revenue Accruals	(41,686)
Expenditure Accruals	247
Increase in Fair Value of Investments - FY 2015	(2,072)
Increase in Fair Value of Investments - FY 2014	1,336
Advances	(17,772)
Encumbrances	<u>(278,148)</u>
Budget Basis	<u><u>(\$194,865)</u></u>

South Central Ohio Educational Service Center
Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2015

Federal Grantor / Pass Through Grantor / Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Adult Education - Basic Grants to States	2014	84.002	\$21,010	\$27,282
	2015		257,454	257,454
<i>Total Adult Education - Basic Grants to Sates</i>			<u>278,464</u>	<u>284,736</u>
Special Education - Preschool Grants	2014	84.173	1,835	2,519
	2015		41,509	45,379
<i>Total Special Education - Preschool Grants</i>			<u>43,344</u>	<u>47,898</u>
Special Education - Grants for Infants and Families	2015	84.181	155,372	162,944
Improving Teacher Quailty State Grants	2014	84.367	2,020	4,039
	2015		3,825	18,925
<i>Total Improving Teacher Quailty State Grants</i>			<u>5,845</u>	<u>22,964</u>
<i>ARRA- Race to the Top, Recovery Act</i>				
Ohio Resident Educator	2014	84.395	0	10,074
Regional Specialist	2014		24,910	36,258
	2015		116,652	163,932
Regional Formative Instruction Specialist	2013		0	7,458
	2014		22,256	31,692
	2015		111,207	133,025
<i>Total ARRA - Race to the Top, Recovery Act</i>			<u>275,025</u>	<u>382,439</u>
Total U.S. Department of Education			758,050	900,981
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through Ohio Department of Health:</i>				
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	2015	93.505	146,615	143,615
Total U.S. Department of Health and Human Services			<u>146,615</u>	<u>143,615</u>
Total Federal Financial Assistance			<u>\$904,665</u>	<u>\$1,044,596</u>

South Central Ohio Educational Service Center
Notes to the Schedule of Federal Awards Receipts and Expenditures
For the year ended June 30, 2015

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

NOTE C - REIMBURSEMENT OF FEDERAL GRANT MONIES

The Educational Service Center received an email notification from the Ohio Department of Education requesting grant refund/reimbursement of unspent grant funds for the Race to the Top, Even Start and ABLE grants for the period ending June 30, 2014 in the amounts of \$18,025, \$1,876 and \$103 respectively. The Educational Service Center submitted the reimbursement total of \$19,999 to the Treasurer of State of Ohio, in September and November 2014, with check numbers 64534, 64535, 64563, 64808 and 64841. This reimbursement of Federal monies was not included on the Schedule.

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**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Required by
*Government Auditing Standards***

South Central Ohio Educational Service Center
522 Glenwood Avenue
New Boston, Ohio 45662

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Central Ohio Educational Service Center (the Educational Service Center), Scioto County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated January 11, 2016, wherein we noted the School District adopted new accounting guidelines in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* and 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

In planning and performing our audit of the financial statements, we considered the Educational Service Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of supporting our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Educational Service Center's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

South Central Ohio Educational Service Center
Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by
Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

January 11, 2016

**Independent Auditor's Report on Compliance with Requirements Applicable for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133**

South Central Ohio Educational Service Center
522 Glenwood Avenue
New Boston, Ohio 45662

Report on Compliance for Each Major Federal Program

We have audited the South Central Ohio Educational Service Center (the Educational Service Center), Scioto County, compliance with the types of applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could have a direct and material effect on the Educational Service Center's major federal program for the year ended June 30, 2015. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

The Educational Service Center's management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Educational Service Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the applicable compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Educational Service Center complied, in all material aspects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditor's results section of the accompanying schedule of findings for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of South Central Ohio Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Educational Service Center's internal control over compliance with the applicable requirements that could have a direct and material effect on the major federal program, to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with an applicable compliance requirement of a federal program on a timely basis. *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's compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with an applicable compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

January 11, 2016

South Central Ohio Educational Service Center
Schedule of Findings
For the Fiscal Year Ended June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1.	<i>Type of Financial Statement Opinion</i>	Unmodified
2.	<i>Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?</i>	No
3.	<i>Were there any other significant internal control deficiencies reported at the financial statement level (GAGAS)?</i>	No
4.	<i>Was there any material noncompliance reported at the financial statement level (GAGAS)?</i>	No
5.	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
6.	<i>Were there any other significant internal control deficiencies reported for major federal programs?</i>	No
7.	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
8.	<i>Are there any reportable findings under § .510?</i>	No
9.	<i>Major Programs (list):</i>	CFDA #84.395 Race to the Top - ARRA
10.	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: All Other Programs
11.	<i>Low Risk Auditee?</i>	Yes

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

There were no findings related to the financial statements required to be reported in accordance with GAGAS.

C. FINDINGS FOR FEDERAL AWARDS

There were no findings related to Federal Awards to be reported.



Dave Yost • Auditor of State

SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 14, 2016**