

WARREN COUNTY EDUCATIONAL SERVICE CENTER



Basic Financial Statements

June 30, 2016



Dave Yost • Auditor of State

Board of Education
Warren County Educational Service Center
1879 Deerfield Road
Lebanon, Ohio 45036

We have reviewed the *Independent Auditor's Report* of the Warren County Educational Service Center, Warren County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. 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 Warren County 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

March 20, 2017

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INDEPENDENT AUDITOR'S REPORT

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren County Educational Service Center (the Center) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of pension liabilities and pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 22, 2016

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

The discussion and analysis of Warren County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- Net Position of governmental activities increased \$3,654,295 which represents a 19.3% increase from 2015.
- General revenues accounted for \$1,208,139 in revenue or 5.3% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$21,729,020 or 94.7% of total revenues of \$22,937,159.
- The Center had \$19,282,864 in expenses related to governmental activities; \$21,729,020 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,208,139 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Government-wide Financial Statements answers this question. These statements include *all assets and outflows of resources*, and *liabilities and inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

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

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

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

Fund Financial Statements

The analysis of the Center's major fund begins on the balance sheet. Fund financial reports provide detailed information about the Center's major fund. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

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

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

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

The Center as a Whole

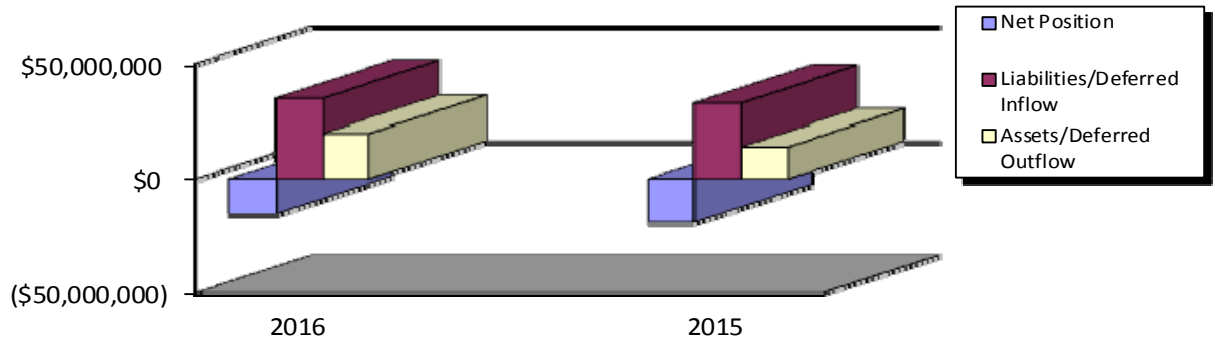
As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2016 compared to 2015:

**Table 1
Net Position**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets:		
Current and Other Assets	\$12,636,396	\$9,332,951
Capital Assets	<u>2,812,053</u>	<u>2,816,194</u>
Total Assets	<u>15,448,449</u>	<u>12,149,145</u>
Deferred Outflows of Resources:		
Pension	<u>4,305,629</u>	<u>1,805,942</u>
Total Deferred Outflows of Resources	<u>4,305,629</u>	<u>1,805,942</u>
Liabilities:		
Other Liabilities	1,799,962	1,703,983
Long-Term Liabilities	<u>28,938,426</u>	<u>26,601,163</u>
Total Liabilities	<u>30,738,388</u>	<u>28,305,146</u>
Deferred Inflows of Resources:		
Pension	<u>4,262,369</u>	<u>4,550,915</u>
Total Deferred Inflows of Resources	<u>4,262,369</u>	<u>4,550,915</u>
Net Position:		
Net Investment in Capital Assets	2,812,053	2,816,194
Restricted	948,536	598,908
Unrestricted	<u>(19,007,268)</u>	<u>(22,316,076)</u>
Total Net Position	<u>(\$15,246,679)</u>	<u>(\$18,900,974)</u>

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Center's assets and deferred outflows of resources, exceeded liabilities and deferred inflows of resources by \$(15,246,679).

At year-end, capital assets represented 18% of total assets. Capital assets include land, buildings and improvements, and equipment. Net investment in capital assets at June 30, 2016, was \$2,812,053. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, \$948,536 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased from 2016 to 2015 mainly due to an increase in cash due to the Center's ability to keep resources exceeding its disbursements for the year. Long-term liabilities increased mainly due to an increase in Net Pension Liability.

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

**Table 2
Changes in Net Position**

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues		
Charges for Services	\$20,219,504	\$16,044,405
Operating Grants and Contributions	1,509,516	1,231,652
General Revenues:		
Grants and Entitlements	892,389	898,117
Other	315,750	280,727
Total Revenues	<u>22,937,159</u>	<u>18,454,901</u>
Program Expenses:		
Instruction	7,178,974	5,855,745
Support Services:		
Pupil and Instructional Staff	8,524,192	8,128,100
School Administrative, General Administration, Fiscal and Business	2,783,809	3,080,015
Operations and Maintenance	170,906	212,009
Pupil Transportation	141,405	138,577
Central	459,026	315,830
Operation of Non-Instructional Services	<u>24,552</u>	<u>7,010</u>
Total Program Expenses	<u>19,282,864</u>	<u>17,737,286</u>
Change in Net Position	3,654,295	717,615
Net Position - Beginning of Year	<u>(18,900,974)</u>	<u>(19,618,589)</u>
Net Position - End of Year	<u>(\$15,246,679)</u>	<u>(\$18,900,974)</u>

The Center revenues are mainly from three sources, charges for service, operating grants, and grants and entitlements. Charges for service revenues are generated by providing services to districts. The Center and a district enter an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. Operating grant revenues are awarded to the Center by various state and federal agencies. Grants and entitlements revenues are given directly to the Center and are calculated based on the ADM of the districts.

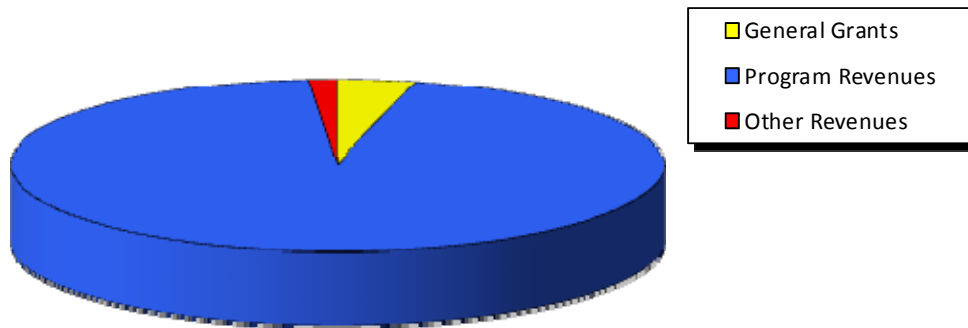
The Center's revenues are demonstrated by the following graph:

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**Warren County Educational Service Center
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Governmental Activities
Revenue Sources**

	2016	Percentage
General Grants	\$892,389	3.9%
Program Revenues	21,729,020	94.7%
Other Revenues	315,750	1.4%
Total Revenue Sources	<u>\$22,937,159</u>	<u>100.0%</u>



Instruction comprises 37.2% of governmental program expenses. Support services expenses were 62.6% of governmental program expenses. All other expenses including interest expense were 0.2%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Grants and entitlements revenue remained consistent with prior year. Overall expenses for the current fiscal year increased when compared to 2015 due to an increase in instruction and support services expenses.

Governmental Activities

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

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$7,178,974	\$5,855,745	\$555,719	(\$134,777)
Support Services:				
Pupil and Instructional Staff	8,524,192	8,128,100	1,626,060	(58,570)
School Administrative, General				
Administration, Fiscal and Business	2,783,809	3,080,015	205,103	(266,801)
Operations and Maintenance	170,906	212,009	35,278	(17,047)
Pupil Transportation	141,405	138,577	14,024	13,539
Central	459,026	315,830	5,452	(19,126)
Operation of Non-Instructional Services	24,552	7,010	(7,730)	9,736
Extracurricular Activities	0	0	12,250	11,817
Total Expenses	<u>\$19,282,864</u>	<u>\$17,737,286</u>	<u>\$2,446,156</u>	<u>(\$461,229)</u>

The Center's Major Fund

The Center has two major governmental funds: the General Fund and Miscellaneous Federal Grant Fund. Assets of these funds comprised \$ 12,136,386 (95%) of the total \$12,733,083 governmental fund assets.

General Fund: Fund balance at June 30, 2016 was \$9,817,757, including \$9,529,988 of unassigned balance. Fund balance increased \$2,923,000 from 2015. The primary reason for the increase in the fund balance was due to an increase in charges for services.

Miscellaneous Federal Grant Fund: Fund balance at June 30, 2016 was \$(36,812), including \$(36,847) of unassigned balance. Fund balance decreased \$42,103 from 2015. The primary reason for the decrease in the fund balance was due to an increase in support services expenses.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016, the Center had \$2,812,053 invested in land, buildings and improvements and equipment. Table 4 shows fiscal 2016 balances compared to 2015:

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**Warren County Educational Service Center
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

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

	Governmental Activities	
	2016	2015
Land	\$202,980	\$202,980
Buildings and Improvements	2,287,879	2,342,896
Equipment	321,194	270,318
Total Net Capital Assets	<u>\$2,812,053</u>	<u>\$2,816,194</u>

Overall, capital assets decreased due to depreciation expense being greater than current asset additions.

See Note 5 to the Basic Financial Statements for further details on the Center’s capital assets.

Debt

At June 30, 2016, the Center had no general obligation debt outstanding.

For the Future

Warren County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Educational Service Center to provide a quality education for the students of Warren County.

All other income is derived from direct invoicing for services and grants. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State’s school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002, the Court again ruled in a split decision that the State’s plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2006 and the new court may be called upon to address the issue. At this time, there can be no reasonable estimate of the decision or its impact on school funding and as of the date of these financial statements, the Center is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

Contacting the Center’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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 received. If you have any questions about this report or need additional information, contact Alleyn Unversaw, Treasurer of Warren County Educational Service Center, 1879 Deerfield Road, Lebanon, Ohio 45036.

Warren County Educational Service Center
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$10,053,258
Receivables:	
Accounts	1,978,957
Intergovernmental	599,386
Prepaid	4,795
Nondepreciable Capital Assets	202,980
Depreciable Capital Assets, Net	<u>2,609,073</u>
 Total Assets	 <u>15,448,449</u>
 Deferred Outflows of Resources:	
Pension	<u>4,305,629</u>
 Total Deferred Outflows of Resources	 <u>4,305,629</u>
 Liabilities:	
Accounts Payable	60,922
Accrued Wages and Benefits	1,739,040
Long-Term Liabilities:	
Due Within One Year	75,468
Due In More Than One Year:	
Net Pension Liability	27,529,597
Other Amounts	<u>1,333,361</u>
 Total Liabilities	 <u>30,738,388</u>
 Deferred Inflows of Resources:	
Pension	<u>4,262,369</u>
 Total Deferred Inflows of Resources	 <u>4,262,369</u>
 Net Position:	
Net Investment in Capital Assets	2,812,053
Restricted for:	
State Grants	201,415
Other Federal Grants	440,166
Other Grants	306,955
Unrestricted	<u>(19,007,268)</u>
 Total Net Position	 <u>(\$15,246,679)</u>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$3,480,731	\$3,558,534	\$142,851	\$220,654
Special	3,698,243	4,033,308	0	335,065
Support Services:				
Pupil	8,280,642	7,957,258	835,389	512,005
Instructional Staff	243,550	949,663	407,942	1,114,055
General Administration	38,084	22,261	0	(15,823)
School Administration	2,071,001	2,130,166	0	59,165
Fiscal	641,772	777,929	23,795	159,952
Business	32,952	34,761	0	1,809
Operations and Maintenance	170,906	206,184	0	35,278
Pupil Transportation	141,405	58,992	96,437	14,024
Central	459,026	461,376	3,102	5,452
Operation of Non-Instructional Services	24,552	16,822	0	(7,730)
Extracurricular Activities	0	12,250	0	12,250
Totals	\$19,282,864	\$20,219,504	\$1,509,516	2,446,156

General Revenues:

Grants and Entitlements, Not Restricted	892,389
Investment Earnings	7,629
Other Revenues	308,121

Total General Revenues 1,208,139

Change in Net Position 3,654,295

Net Position - Beginning of Year (18,900,974)

Net Position - End of Year (\$15,246,679)

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2016

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$9,516,778	\$0	\$536,480	\$10,053,258
Receivables:				
Accounts	1,978,957	0	0	1,978,957
Intergovernmental	0	539,198	60,188	599,386
Interfund	96,687	0	0	96,687
Prepaid	4,731	35	29	4,795
Total Assets	11,597,153	539,233	596,697	12,733,083
Liabilities:				
Accounts Payable	50,283	3,850	6,789	60,922
Accrued Wages and Benefits	1,715,790	12,692	10,558	1,739,040
Compensated Absences	13,323	0	0	13,323
Interfund Payable	0	90,788	5,899	96,687
Total Liabilities	1,779,396	107,330	23,246	1,909,972
Deferred Inflows of Resources:				
Grants	0	468,715	42,811	511,526
Total Deferred Inflows of Resources	0	468,715	42,811	511,526
Fund Balances:				
Nonspendable	4,731	35	29	4,795
Restricted	0	0	515,459	515,459
Committed	48,607	0	15,423	64,030
Assigned	234,431	0	0	234,431
Unassigned	9,529,988	(36,847)	(271)	9,492,870
Total Fund Balances	9,817,757	(36,812)	530,640	10,311,585
Total Liabilities, Deferred Inflows and Fund Balances	\$11,597,153	\$539,233	\$596,697	\$12,733,083

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2016

Total Governmental Fund Balance		\$10,311,585
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		2,812,053
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Intergovernmental		511,526
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(1,395,506)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	4,305,629	
Deferred inflows of resources related to pensions	<u>(4,262,369)</u>	
		43,260
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability		<u>(27,529,597)</u>
Net Position of Governmental Activities		<u>(\$15,246,679)</u>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and Fees	\$1,100,300	\$0	\$0	\$1,100,300
Investment Earnings	7,629	0	0	7,629
Intergovernmental	892,389	585,192	475,175	1,952,756
Extracurricular Activities	11,160	0	0	11,160
Charges for Services	19,038,392	0	60,655	19,099,047
Other Revenues	296,138	0	20,980	317,118
Total Revenues	21,346,008	585,192	556,810	22,488,010
Expenditures:				
Current:				
Instruction:				
Regular	3,380,061	0	106,367	3,486,428
Special	3,843,007	0	0	3,843,007
Support Services:				
Pupil	7,656,511	377,494	302,291	8,336,296
Instructional Staff	14,162	245,694	21,173	281,029
General Administration	49,065	0	0	49,065
School Administration	2,066,694	0	0	2,066,694
Fiscal	735,575	4,107	24,571	764,253
Business	32,952	0	0	32,952
Operations and Maintenance	179,609	0	0	179,609
Pupil Transportation	0	0	150,002	150,002
Central	449,426	0	48,738	498,164
Operation of Non-Instructional Services	15,946	0	8,606	24,552
Total Expenditures	18,423,008	627,295	661,748	19,712,051
Excess of Revenues Over (Under) Expenditures	2,923,000	(42,103)	(104,938)	2,775,959
Other Financing Sources (Uses):				
Transfers In	0	0	192,188	192,188
Transfers (Out)	0	0	(192,188)	(192,188)
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balance	2,923,000	(42,103)	(104,938)	2,775,959
Fund Balance - Beginning of Year	6,894,757	5,291	635,578	7,535,626
Fund Balance - End of Year	\$9,817,757	(\$36,812)	\$530,640	\$10,311,585

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Funds \$2,775,959

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	108,665	
Depreciation Expense	<u>(112,806)</u>	(4,141)

Governmental funds report center pension contributions as
 expenditures. However in the Statement of Activities, the cost
 of pension benefits earned net of employee contributions is
 reported as pension expense.

Center pension contributions	1,647,199	
Cost of benefits earned net of employee contributions	<u>(1,059,086)</u>	588,113

Revenues in the statement of activities that do not provide
 current financial resources are not reported as revenues in
 the funds.

Intergovernmental		449,149
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Some expenses reported in the statement of activities do not require the
 use of current financial resources and, therefore, are not reported as
 expenditures in governmental funds.

Compensated Absences		<u>(154,785)</u>
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Change in Net Position of Governmental Activities		<u><u>\$3,654,295</u></u>
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See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Assets and Liabilities
Fiduciary Fund
June 30, 2016

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$17,050</u>
Total Assets	<u>17,050</u>
Liabilities:	
Accounts Payable	13,287
Other Liabilities	<u>3,763</u>
Total Liabilities	<u>\$17,050</u>

See accompanying notes to the basic financial statements.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Note 1 - Description of the Center

The Warren County Educational Service Center (the "Center") is located in Lebanon, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Carlisle, Kings, Little Miami and Wayne Local School Districts, as well as the Springboro, Lebanon, Franklin and Middletown City School Districts. Other school districts outside Warren County are served on an individual contract basis for various services. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Center is staffed by 99 classified, 161 certified, and two administrative employees providing educational service to school districts.

Reporting Entity

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

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center, in that the Center approves the budget, the issuance of debt, or the levying of taxes. Based on this criterion, the Center has no discretely presented component unit in the basic financial statements.

During fiscal year 2016, the Center was the fiscal agent for the Warren County Family and Children First Council (the FCFC). The FCFC is a separate agency which provides services to qualified Warren County families. The Center maintains Council funds in a separate Agency Fund.

As of June 30, 2016, the Center served as sponsor and fiscal agent for charter schools established under chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of the Center.

The Center is associated with three jointly governed organizations. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), and the Southwest Ohio Council of Governments. Information about these organizations is presented in Note 14 to the basic financial statements.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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 most significant of the Center's accounting policies are described below.

Measurement Focus

Government-wide Financial Statements

The Center's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

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

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred inflows 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the categories governmental and fiduciary.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Governmental Funds

Governmental funds focus 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 liabilities and deferred inflows is reported as fund balance. The following is the Center's major governmental fund:

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

Miscellaneous Federal Grant Fund – A fund used to account for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

Fiduciary Funds

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the 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 of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, included grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements

Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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 year end: charges for services, grants and interest.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include grants, and pension. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

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

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Center has, by resolution, specified the funds to receive an allocation of interest earnings.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

For presentation on the financial statements, all investments and deposits are reported as “Equity in Pooled Cash and Investments”.

During the fiscal year, the Center’s only investment was Star Ohio.

Capital Assets

General capital 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) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$500. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Equipment	5 - 20 years

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from Board Policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation days may not be carried over. All full-time certificated and classified employees are entitled to three days personal leave per year, which does not accumulate from one year to the next. Teachers do not earn vacation time. Eleven and twelve month certified staff earn two weeks to four weeks, respectively.

Teachers, administrators and classified employees earn sick leave at the rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (a maximum of 60 days).

Health Care Benefits

The Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through UnumProvident.

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan.

The Center provides dental insurance to full-time employees through Delta Dental.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$948,536 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

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

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

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

Fund Balance

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

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Governing Board. Formal action by the Board of Education is needed to commit or rescind resources.

Assigned – resources that are intended to be used for specific purposes as approved through the Center’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenditures for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

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

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 - Equity in Pooled Cash and Investments

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

30, 2016, \$4,575,083 of the Center’s bank balance of \$4,881,888 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Center’s name.

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

Investments

As of June 30, 2016, the Center had the following investments:

	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	\$5,410,323	0.13
Portfolio Weighted Average Maturity		0.13

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Center’s recurring fair value measurements as of June 30, 2016. STAR Ohio is reported at its share price.

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

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The Center’s investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The Center places no limit on the amount it may invest in any one issuer. 100% of the Center's investments at fiscal year end were in STAR Ohio.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Note 4 – Receivables

Receivables at June 30, 2016, consisted of accounts, intergovernmental grants, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$202,980	\$0	\$0	\$202,980
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	2,625,251	0	0	2,625,251
Equipment	694,754	108,665	0	803,419
Totals at Historical Cost	<u>3,522,985</u>	<u>108,665</u>	<u>0</u>	<u>3,631,650</u>
Less Accumulated Depreciation:				
Buildings and Improvements	282,355	55,017	0	337,372
Equipment	424,436	57,789	0	482,225
Total Accumulated Depreciation	<u>706,791</u>	<u>112,806</u>	<u>0</u>	<u>819,597</u>
Governmental Activities Capital Assets, Net	<u>\$2,816,194</u>	<u>(\$4,141)</u>	<u>\$0</u>	<u>\$2,812,053</u>

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**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$22,018
Special	14,545
Support Services:	
Pupil	3,520
Instructional Staff	179
School Administration	63,944
Fiscal	1,971
Operations and Maintenance	727
Pupil Transportation	164
Central	<u>5,738</u>
Total Depreciation Expense	<u><u>\$112,806</u></u>

Note 6 - Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
Governmental Activities:					
Net Pension Liability:					
STRS	\$19,376,648	\$6,111,819	\$1,296,532	\$24,191,935	\$0
SERS	<u>5,952,833</u>	<u>608,886</u>	<u>3,224,057</u>	<u>3,337,662</u>	<u>0</u>
Total Net Pension Liability	25,329,481	6,720,705	4,520,589	27,529,597	0
Compensated Absences	<u>1,271,682</u>	<u>223,112</u>	<u>85,965</u>	<u>1,408,829</u>	<u>75,468</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$26,601,163</u></u>	<u><u>\$6,943,817</u></u>	<u><u>\$4,606,554</u></u>	<u><u>\$28,938,426</u></u>	<u><u>\$75,468</u></u>

Compensated Absences will be paid from the fund from which the person is paid.

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

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

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 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, 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$235,469 for fiscal year 2016. Of this amount \$3,182 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased 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.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was \$1,411,730 for fiscal year 2016. Of this amount \$125,282 is reported as accrued wages and benefits.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,337,662	\$24,191,935	\$27,529,597
Proportion of the Net Pension Liability	0.05849290%	0.08753436%	
Pension Expense	210,463	1,100,081	1,310,544

At June 30, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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**Warren County Educational Service Center
Notes to the Basic Financial Statements
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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$79,212	\$1,084,413	\$1,163,625
Net difference between projected and actual earnings on pension plan investments	249,760	1,214,382	1,464,142
Changes in employer proportion and differences between contributions and proportionate share of contributions	33,934	(3,271)	30,663
District contributions subsequent to the measurement date	<u>235,469</u>	<u>1,411,730</u>	<u>1,647,199</u>
Total Deferred Outflows of Resources	<u>\$598,375</u>	<u>\$3,707,254</u>	<u>\$4,305,629</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$846,046	\$2,600,006	\$3,446,052
Changes in employer proportion and differences between contributions and proportionate share of contributions	(485,698)	354,234	(131,464)
Changes in employer proportionate share of net pension liability	<u>3,102,445</u>	<u>(2,154,664)</u>	<u>947,781</u>
Total Deferred Inflows of Resources	<u>\$3,462,793</u>	<u>\$799,576</u>	<u>\$4,262,369</u>

\$1,647,199 reported as deferred outflows of resources related to pension resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$1,018,365)	\$168,323	(\$850,042)
2018	(1,018,366)	168,323	(850,043)
2019	(1,018,366)	168,324	(850,042)
2020	<u>(44,790)</u>	<u>990,978</u>	<u>946,188</u>
Total	<u>(\$3,099,887)</u>	<u>\$1,495,948</u>	<u>(\$1,603,939)</u>

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

<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 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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Center's proportionate share of the net pension liability	\$4,628,137	\$3,337,662	\$2,250,975

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, 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, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
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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, 2015, 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>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. 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, 2015.

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

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**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	\$33,604,425	\$24,191,935	\$16,232,274

Note 9 - Post Employment Benefits

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0%. 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 2016, this amount was \$23,000. 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 2016, the Center's surcharge obligation was \$3,182.

The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$16,183, and \$5,610, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System

Plan Description – The Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

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 2016, STRS did not allocate any employer contributions to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$79,983, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

Note 9 - Contingent Liabilities

Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2016.

Litigation

The Center's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

Note 10 - Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the Center contracted with Governmental Underwriters of America for property. Coverages provided are as follows:

Building and Contents (\$1,000 deductible)	\$4,512,322
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists Liability (\$1,000 deductible)	1,000,000

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

<i>General Liability:</i> Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Fire Damage Limit - Any One Event	500,000
<i>Employee Benefits Liability:</i> Each Occurrence	1,000,000
Aggregate Limit	3,000,000
<i>Employer's Liability:</i> Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
<i>Excess Liability – Umbrella Form</i> Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

For fiscal year 2016, the Center also participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool. The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts/centers is calculated and a premium rate is applied to all school districts/centers in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts/centers that can meet the MBP's selection criteria.

For fiscal year 2016, the Center also participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts/centers is calculated as one experience and a common premium rate is applied to all school districts/centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts/centers that can meet the GRP's selection criteria. The firm of Hunter Consulting, Inc. provides administrative, cost control and actuarial services to the GRP.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Note 11 - State Funding

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by \$35 multiplied by a proration factor. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Note 12 – Accountability

The following individual funds had a deficit in fund balance at year end:

	<u>Amounts</u>
Miscellaneous Federal Grants	\$36,812
Other Government Funds:	
Children's Trust	267

The deficits in fund balances were primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 13 - Interfund Transactions

Interfund transactions at June 30, 2016, consisted of the following interfund receivables and interfund payables and transfers in and out:

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**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$96,687	\$0	\$0	\$0
Miscellaneous Federal Grants	0	90,788	0	0
Other Governmental Funds	0	5,899	192,188	192,188
Total All Funds	<u>\$96,687</u>	<u>\$96,687</u>	<u>\$192,188</u>	<u>\$192,188</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed. The transfer of \$192,188 out of the other governmental funds into other governmental funds was to move money from one state grant fund to another state grant fund. This transfer was board approved, discussed with the ESC legal counsel and in compliance with the Ohio Revised Code.

Note 14 - Jointly Governed Organization

Southwest Ohio Computer Association

The Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts/centers. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district/center. Financial information can be obtained from the fiscal agent, Butler Tech, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 129 school districts, boards of developmental disabilities, and educational service centers in 18 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools which includes medical insurance, dental insurance, life insurance, and workers compensation. All member districts/centers are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district/center has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts/centers by the fiscal agent. Any district/center withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken S. Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377-1171.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Southwest Ohio Council of Governments

The Southwest Ohio Council of Governments (Council) was created pursuant to chapter 167 of the Ohio Revised Code by agreement of its members. The Council was formed in 2012 by the Center and the Warren County Board of Commissioners. The Council's purpose is to provide substitute teaching services for school districts in Warren and Butler Counties.

The Center serves as the Fiscal Officer for the Council. The Council's funds are maintained separately from the Center's funds.

Note 15 –Fund Balances

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

Fund Balances	General	Miscellaneous Federal Grants	Other Governmental Funds	Total
Nonspendable:				
Prepays	\$4,731	\$35	\$29	\$4,795
Total Nonspendable	4,731	35	29	4,795
Restricted for:				
School Bus Driver Training	\$0	\$0	\$99,594	\$99,594
Other Grants	0	0	292,719	292,719
Title I Disadvantaged Children	0	0	2,762	2,762
Miscellaneous State Grants	0	0	120,384	120,384
Total Restricted	0	0	515,459	515,459
Committed to:				
Termination Benefits	48,607	0	0	48,607
WCESC Scholarship	0	0	15,423	15,423
Total Committed	48,607	0	15,423	64,030
Assigned to:				
Public School	110,526	0	0	110,526
Encumbrances	123,905	0	0	123,905
Total Assigned	234,431	0	0	234,431
Unassigned (Deficit)	9,529,988	(36,847)	(271)	9,492,870
Total Fund Balance	\$9,817,757	(\$36,812)	\$530,640	\$10,311,585

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**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016**

Note 16 – Change in Accounting Principle and Restatement of Net Position

For the fiscal year ended June 30, 2016, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the Center's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Center.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Center.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Center.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	2015	2014	2013
Center's Proportion of the Net Pension Liability	0.08753436%	0.07966238%	0.07966238%
Center's Proportionate Share of the Net Pension Liability	\$24,191,935	\$19,376,648	\$23,019,178
Center's Covered-Employee Payroll	\$9,231,729	\$8,765,392	\$8,691,446
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	262.05%	221.06%	264.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) - Information prior to 2013 is not available

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

	2015	2014	2013
Center's Proportion of the Net Pension Liability	0.05849290%	0.11762300%	0.11762300%
Center's Proportionate Share of the Net Pension Liability	\$3,337,662	\$5,952,833	\$6,996,760
Center's Covered-Employee Payroll	\$2,096,305	\$3,452,417	\$4,423,873
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	159.22%	172.43%	158.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) - Information prior to 2013 is not available

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$1,411,730	\$1,292,442	\$1,139,501	\$1,129,888	\$1,126,556	\$1,099,002	\$1,074,347	\$990,585	\$838,035	\$851,435
Contributions in Relation to the Contractually Required Contribution	(1,411,730)	(1,292,442)	(1,139,501)	(1,129,888)	(1,126,556)	(1,099,002)	(1,074,347)	(990,585)	(838,035)	(851,435)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Center Covered-Employee Payroll	\$10,083,786	\$9,231,729	\$8,765,392	\$8,691,446	\$8,665,815	\$8,453,862	\$8,264,208	\$7,619,885	\$6,446,423	\$6,549,500
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$235,469	\$276,293	\$478,505	\$612,264	\$576,842	\$586,569	\$568,209	\$568,131	\$572,301	\$521,057
Contributions in Relation to the Contractually Required Contribution	(235,469)	(276,293)	(478,505)	(612,264)	(576,842)	(586,569)	(568,209)	(568,131)	(572,301)	(521,057)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Center Covered-Employee Payroll	\$1,681,921	\$2,096,305	\$3,452,417	\$4,423,873	\$4,288,788	\$4,666,420	\$4,196,521	\$5,773,689	\$5,827,912	\$4,878,811
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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WARREN COUNTY EDUCATIONAL SERVICE CENTER



Yellow Book Report

June 30, 2016

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren County Educational Service Center (the Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 weaknesses 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 22, 2016



Dave Yost • Auditor of State

WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN 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 4, 2017