



Dave Yost • Auditor of State

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, Ohio (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, Ohio, as of June 30, 2017, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.B.

Accounting Basis

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

Other Matters

Supplemental Information

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

The budgetary comparison schedules are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

May 2, 2018

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

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 6,262,195
Total assets.	6,262,195
 Net cash position:	
Restricted for:	
Locally funded programs	84,847
State funded programs.	27,711
Alternative schools	419,259
Other purposes	4,113
Unrestricted	5,726,265
Total net cash position.	\$ 6,262,195

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Cash</u>	<u>Program Cash Receipt</u>		<u>Net (Disbursements)</u>
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Receipts and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in Net</u>
				<u>Cash Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 541,886	\$ 21,783	\$ 527,386	\$ 7,283
Special	4,085,745	3,865,617	204,669	(15,459)
Vocational	53,578	-	55,175	1,597
Support services:				
Pupil.	2,254,243	2,133,712	66,858	(53,673)
Instructional staff	1,677,276	793,339	905,056	21,119
Board of education	88,487	-	-	(88,487)
Administration.	873,069	805,021	207,179	139,131
Fiscal.	433,902	522,092	-	88,190
Pupil transportation.	69,816	1,555	4,710	(63,551)
Central	88,371	82,227	1,823	(4,321)
Extracurricular activities.	4,936	75	1,400	(3,461)
Intergovernmental pass through.	70,981	-	73,097	2,116
Debt service:				
Principal retirement.	9,666	-	-	(9,666)
Interest and fiscal charges	3,030	-	-	(3,030)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ 10,254,986</u>	<u>\$ 8,225,421</u>	<u>\$ 2,047,353</u>	<u>17,788</u>
General cash receipts:				
Grants and entitlements not restricted				
to specific programs				535,397
Investment earnings				28,396
Miscellaneous.				30,645
Total general cash receipts				<u>594,438</u>
				Change in net cash position 612,226
				Net cash position at beginning of year 5,649,969
				Net cash position at end of year \$ 6,262,195

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Alternative School	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents.	\$ 5,253,575	\$ 419,259	\$ 589,361	\$ 6,262,195
Total assets	\$ 5,253,575	\$ 419,259	\$ 589,361	\$ 6,262,195
Fund cash balances:				
Nonspendable:				
Unclaimed monies	\$ 4,113	\$ -	\$ -	\$ 4,113
Restricted:				
Alternative schools.	-	419,259	-	419,259
Other purposes.	-	-	112,558	112,558
Committed:				
Other purposes.	-	-	476,803	476,803
Assigned:				
Student instruction	31,320	-	-	31,320
Student and staff support.	383,953	-	-	383,953
Unassigned	4,834,189	-	-	4,834,189
Total cash fund balances	\$ 5,253,575	\$ 419,259	\$ 589,361	\$ 6,262,195

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Alternative School</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:				
From local sources:				
Tuition.	\$ 3,381,149	\$ 1,038,869	\$ -	\$ 4,420,018
Earnings on investments	28,396	-	-	28,396
Extracurricular.	5,853	-	-	5,853
Contributions and donations	30,895	-	24,679	55,574
Contract services.	3,227,082	199,951	32,831	3,459,864
Other local revenues	283,233	82,976	4,122	370,331
Intergovernmental	535,397	27,037	1,964,742	2,527,176
Total cash receipts	<u>7,492,005</u>	<u>1,348,833</u>	<u>2,026,374</u>	<u>10,867,212</u>
Cash disbursements:				
Current:				
Instruction:				
Regular.	32,441	21,537	487,908	541,886
Special	2,872,826	1,061,449	151,470	4,085,745
Vocational	-	-	53,578	53,578
Support services:				
Pupil	2,102,169	59,191	92,883	2,254,243
Instructional staff	808,487	1,500	867,289	1,677,276
Board of education	88,487	-	-	88,487
Administration	511,629	163,205	198,235	873,069
Fiscal	433,902	-	-	433,902
Pupil transportation	65,242	-	4,574	69,816
Central	84,675	-	3,696	88,371
Extracurricular activities.	1,902	-	3,034	4,936
Intergovernmental pass-through	-	-	70,981	70,981
Debt service:				
Principal retirement.	9,666	-	-	9,666
Interest and fiscal charges	3,030	-	-	3,030
Total cash disbursements.	<u>7,014,456</u>	<u>1,306,882</u>	<u>1,933,648</u>	<u>10,254,986</u>
Excess of receipts over disbursements.	<u>477,549</u>	<u>41,951</u>	<u>92,726</u>	<u>612,226</u>
Other financing sources (uses):				
Advances in	78,316	-	25,176	103,492
Advances (out)	(25,176)	-	(78,316)	(103,492)
Total other financing sources (uses)	<u>53,140</u>	<u>-</u>	<u>(53,140)</u>	<u>-</u>
Net change in fund cash balances.	530,689	41,951	39,586	612,226
Fund cash balances at beginning of year.	<u>4,722,886</u>	<u>377,308</u>	<u>549,775</u>	<u>5,649,969</u>
Fund cash balances at end of year.	<u>\$ 5,253,575</u>	<u>\$ 419,259</u>	<u>\$ 589,361</u>	<u>\$ 6,262,195</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust	Investment Trust	Agency
Assets:			
Equity in pooled cash and cash equivalents	\$ 45,529	\$ 36,398	\$ 13,508
Investments (stock).	15,452	15,452	-
Total assets.	60,981	51,850	\$ 13,508
Liabilities:			
Due to others.	-	-	\$ 13,508
Total liabilities	-	-	\$ 13,508
Net cash position:			
Held in trust for scholarships	60,981	-	
Net cash assets available for pool participants.	-	51,850	
Total net cash position.	\$ 60,981	\$ 51,850	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private Purpose Trust	Investment Trust
Additions:		
Interest.	\$ 9,008	\$ 9,007
Gifts and contributions.	1,870	-
Total additions.	10,878	9,007
Deductions:		
Distributions to participants.	-	4,000
Scholarships awarded	7,700	-
Total deductions.	7,700	4,000
Change in net cash position	3,178	5,007
Net cash position at beginning of year. . .	57,803	46,843
Net cash position at end of year	\$ 60,981	\$ 51,850

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE ENTITY

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

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

The Board consists of 7 members elected by the voters. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 78 non-certified and 90 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)

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

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

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

Logan County Family and Children First Council

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

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

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

Logan County Educational Foundation

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

Ohio Hi-Point Career Center

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

Upper Valley Career Center

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

PUBLIC ENTITY RISK POOLS

Logan County Schools Benefit Plan Association

The Center participates in the Logan County Schools Benefit Plan Association (the "Plan"), a public entity shared risk pool consisting of three local school districts, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

On January 1, 2014, the Logan County School Employee Consortium formed a regional council of governments (the "COG") for the purpose of providing benefits through a self-funded insurance pool. The COG collects premiums from the Logan County School Employee Consortium participants and pays a third-party administrator to process the claims.

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Southwestern Ohio Educational Purchasing Council LFP (EPC-LFP)

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

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

B. Basis of Accounting

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

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

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

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

C. Fund Accounting

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

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

GOVERNMENTAL FUNDS

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

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

Alternative school - The alternative school fund is used to account for money committed to alternative educational programs for existing and new at-risk and delinquent youth. This fund accounts for the Challenge Grant, the Adriel School, the Virtual Learning Academy and a program with the Logan County Juvenile Detention Center.

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

FIDUCIARY FUNDS

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

D. Basis of Presentation

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

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

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

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

E. Budgetary Process

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

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

F. Cash and Investments

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

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2017, investments were limited to common stock (see below), negotiable certificates of deposit and the State Treasury Asset Reserve of Ohio (STAR Ohio). Nonparticipating investment contracts such as certificates of deposit are reported at cost.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

During fiscal year 2017, the Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Center measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$28,396, which includes \$6,340 assigned from other Center funds.

G. Capital Assets

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

H. Inventory and Prepaid Items

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

I. Unpaid Vacation and Sick Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

K. Pensions

For purposes of measuring the net pension liability, 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.

L. Long-Term Obligations

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

M. Fund Cash Balance

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

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

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

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

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

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

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

N. Net Cash Position

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

O. Interfund Activity

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

Q. Fair Market Value

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

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

B. Change in Accounting Principles

For fiscal year 2017, the Center has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. Since the Center does not receive tax revenue, there was no effect on the financial statements of the Center.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Center.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Center.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Center.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1 or 2) above and repurchase agreements secured by such obligations, provided that investments in such securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all Center deposits was \$2,549,448. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$2,239,868 of the Center’s bank balance of \$2,562,664 was exposed to custodial risk as discussed below, while \$322,796 was covered by FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

C. Investments

As of June 30, 2017, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Investment Maturities</u>			
			<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>Indefinite</u>
Stock	\$ 30,904	\$ 530,156	\$ -	\$ -	\$ -	\$ 530,156
Negotiable CD's	1,200,000	1,198,861	374,848	574,147	249,866	-
STAR Ohio	<u>2,608,007</u>	<u>2,608,007</u>	<u>2,608,007</u>	-	-	-
Total	<u>\$ 3,838,911</u>	<u>\$ 4,337,024</u>	<u>\$ 2,982,855</u>	<u>\$ 574,147</u>	<u>\$ 249,866</u>	<u>\$ 530,156</u>

The weighted average maturity of investments is 0.20 years.

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

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2017:

<u>Investment type</u>	<u>Market Value</u>	<u>% to Total</u>
Stock	\$ 530,156	12.22
Negotiable CD's	1,198,861	27.64
STAR Ohio	<u>2,608,007</u>	<u>60.14</u>
Total	<u>\$ 4,337,024</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments reported in the note above to cash as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	<u>Carrying Value</u>
Carrying amount of deposits	\$ 2,549,448
Investments	3,838,911
Cash on hand	<u>175</u>
Total	<u>\$ 6,388,534</u>

<u>Cash and investments per statement of net position</u>	<u>Carrying Value</u>
Governmental activities	\$ 6,262,195
Private-purpose trust funds	60,981
Investment trust fund	51,850
Agency fund	<u>13,508</u>
Total	<u>\$ 6,388,534</u>

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Advances from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 25,176
 <u>Advances from nonmajor governmental funds to:</u>	
General fund	<u>78,316</u>
 Total	 <u>\$ 103,492</u>

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

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

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

NOTE 6 - INVESTMENT POOL

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

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 6 - INVESTMENT POOL - (Continued)

Condensed cash basis financial information for the investment pool follows:

Statement of Net Position
June 30, 2017

Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,357,630
Investments	<u>30,904</u>
<i>Total Assets</i>	<u>6,388,534</u>
 Net Position Held in Trust for Pool Participants	
Internal Portion	6,336,684
External Portion	<u>51,850</u>
<i>Total Net Position Held in Trust for Pool Participants</i>	<u>\$ 6,388,534</u>

Statement of Changes in Net Position
For Fiscal Year Ended June 30, 2017

Additions	
Capital Transaction	\$ 494,662
Interest	<u>46,411</u>
<i>Total Additions</i>	<u>541,073</u>
 Deductions	
Distributions to Participants	<u>46,411</u>
<i>Total Deductions</i>	<u>46,411</u>
 <i>Change in Net Position</i>	 494,662
<i>Net Position, Beginning of Year</i>	<u>5,893,872</u>
<i>Net Position, End of Year</i>	<u>\$ 6,388,534</u>

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

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Principal payments in fiscal year 2017 totaled \$9,666. This amount is reflected as debt service principal retirement in the general fund.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 10,320
2019	10,320
2020	10,320
2021	<u>5,160</u>
Total minimum lease payments	36,120
Less amount representing interest	<u>(4,707)</u>
Total	<u>\$ 31,413</u>

NOTE 8 - RISK MANAGEMENT

A. Comprehensive and Employee Health

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2017, the Center participated in the Ohio School Board Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - 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.

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$191,811 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

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LOGAN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2017, plan members were required to contribute 14 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The 2017 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS Ohio was \$582,463 for fiscal year 2017.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.04869140%	0.03895307%	
Proportion of the net pension liability current measurement date	<u>0.04879870%</u>	<u>0.03763002%</u>	
Change in proportionate share	<u>0.00010730%</u>	<u>-0.00132305%</u>	
Proportionate share of the net pension liability	\$ 3,571,615	\$ 12,595,902	\$ 16,167,517

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, 2016, are presented below:

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

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

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

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

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Center's proportionate share of the net pension liability	\$ 4,728,595	\$ 3,571,615	\$ 2,603,174

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	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>	<u>7.61 %</u>

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	\$ 16,738,930	\$ 12,595,902	\$ 9,101,013

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the Center's net pension liability is expected to be significant.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. 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.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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.

The Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$24,265, \$25,106, and \$37,384, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law 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 Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Center's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

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

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - CONTINGENCIES

Grants

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

NOTE 12 - OTHER COMMITMENTS

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 204,276
Alternative school fund	56,194
Other governmental	<u>364,027</u>
Total	<u>\$ 624,497</u>

NOTE 13 - OPERATING LEASES - LESSEE DISCLOSURE

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

The Center entered into a lease with The Nerd Room, LLC for approximately 500 square feet of storage space and single office space for one workstation. The lease requires monthly payments of \$150.

The Center entered into a lease with Adriel Inc. for the Adriel School facility. The Center paid \$52,500 under the terms of the lease during fiscal year 2017.

NOTE 14 - ADRIEL SCHOOL

Adriel Inc., a separate organization, closed their West Liberty residential facility in February of 2017 and the students were placed elsewhere. As a result, the Adriel School was closed. The Center provided educational services for the Adriel School. The Center has started a new program, at the former Adriel School, called Transitions Academy.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
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BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Budgetary basis receipts:				
From local sources:				
Tuition.	\$ 3,233,975	\$ 3,334,205	\$ 3,381,149	\$ 46,944
Earnings on investments.	25,218	26,000	28,396	2,396
Contributions and donations.	28,322	29,200	29,252	52
Contract services.	2,959,470	3,051,192	3,064,543	13,351
Other local revenues.	269,084	277,424	280,432	3,008
Intergovernmental	519,254	535,347	535,397	50
Total budgetary basis receipts.	<u>7,035,323</u>	<u>7,253,368</u>	<u>7,319,169</u>	<u>65,801</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	34,143	35,321	32,441	2,880
Special.	2,845,037	2,943,213	2,906,084	37,129
Support services:				
Pupil.	2,091,497	2,163,670	2,117,548	46,122
Instructional staff	713,884	738,519	709,411	29,108
Board of education	96,602	99,936	97,153	2,783
Administration.	494,309	511,367	498,661	12,706
Fiscal	480,444	497,023	498,940	(1,917)
Operations and maintenance.	97	100	100	-
Pupil transportation	68,636	71,004	65,377	5,627
Central.	139,882	144,709	136,698	8,011
Total budgetary basis disbursements	<u>6,964,531</u>	<u>7,204,862</u>	<u>7,062,413</u>	<u>142,449</u>
Excess of receipts over disbursements.	<u>70,792</u>	<u>48,506</u>	<u>256,756</u>	<u>208,250</u>
Other financing sources (uses):				
Refund of prior year expenditures	8,495	8,758	8,758	-
Transfers (out)	(1,120)	(1,159)	(1,159)	-
Advances in.	75,962	78,316	78,316	-
Advances (out).	(25,189)	(26,058)	(25,176)	882
Total other financing sources (uses)	<u>58,148</u>	<u>59,857</u>	<u>60,739</u>	<u>882</u>
Net change in fund cash balance	128,940	108,363	317,495	209,132
Fund cash balance at beginning of year . . .	4,429,836	4,429,836	4,429,836	-
Prior year encumbrances appropriated . . .	90,971	90,971	90,971	-
Fund cash balance at end of year	<u>\$ 4,649,747</u>	<u>\$ 4,629,170</u>	<u>\$ 4,838,302</u>	<u>\$ 209,132</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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

BUDGETARY COMPARISON SCHEDULE
ALTERNATIVE SCHOOL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Tuition.	\$ 1,270,030	\$ 1,026,563	\$ 1,038,869	\$ 12,306
Contract services.	244,853	197,914	199,951	2,037
Other local revenues.	101,437	81,991	82,976	985
Intergovernmental	33,449	27,037	27,037	-
Total budgetary basis receipts.	<u>1,649,769</u>	<u>1,333,505</u>	<u>1,348,833</u>	<u>15,328</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	25,207	21,537	21,537	-
Special.	1,296,880	1,108,080	1,076,601	31,479
Support services:				
Pupil.	69,668	59,526	59,191	335
Instructional staff	1,756	1,500	1,500	-
Administration.	194,764	166,410	163,564	2,846
Total budgetary basis disbursements	<u>1,588,275</u>	<u>1,357,053</u>	<u>1,322,393</u>	<u>34,660</u>
Excess (deficiency) of receipts over (under) disbursements	<u>61,494</u>	<u>(23,548)</u>	<u>26,440</u>	<u>49,988</u>
Other financing uses:				
Refund of prior year receipts	<u>(47,615)</u>	<u>(40,683)</u>	<u>(40,683)</u>	<u>-</u>
Total other financing uses	<u>(47,615)</u>	<u>(40,683)</u>	<u>(40,683)</u>	<u>-</u>
Net change in fund cash balance	13,879	(64,231)	(14,243)	49,988
Fund cash balance at beginning of year . . .	335,859	335,859	335,859	-
Prior year encumbrances appropriated . . .	<u>41,449</u>	<u>41,449</u>	<u>41,449</u>	<u>-</u>
Fund cash balance at end of year	<u>\$ 391,187</u>	<u>\$ 313,077</u>	<u>\$ 363,065</u>	<u>\$ 49,988</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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

**NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
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NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Cash Balance

	<u>General fund</u>	<u>Alternative School fund</u>
Cash basis	\$ 530,689	\$ 41,951
Funds budgeted elsewhere **	(32,393)	-
Adjustment for encumbrances	<u>(180,801)</u>	<u>(56,194)</u>
Budget basis	<u>\$ 317,495</u>	<u>\$ (14,243)</u>

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 2, 2018, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Center's Response to Finding

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

May 2, 2018

MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2017

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

FINDING NUMBER 2017-001

NONCOMPLIANCE

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

Ohio Admin. Code § 117-2-03(B) requires, in part, all educational service centers to file annual financial reports which are prepared using generally accepted accounting principles.

The Center prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Center should prepare its financial statements in accordance with generally accepted accounting principles to provide users with more complete and meaningful financial statements.

Officials' Response:

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

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03(B) – Center did not file annual financial report prepared in accordance with generally accepted accounting principles (GAAP)	Not Corrected	The Center has chosen to file Other Comprehensive Basis of Accounting (OCBOA) statements rather than filing GAAP statements due to cost considerations. Citation repeated as Finding 2017-001.



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MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER

LOGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 31, 2018