



Dave Yost • Auditor of State



**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2015 .....	3
Basic Financial Statements - For the Fiscal Year Ended June 30, 2015:	
Government-wide Financial Statements:	
Statement of Net Position – Cash Basis .....	9
Statement of Activities – Cash Basis .....	10
Fund Financial Statements:	
Statement of Assets and Fund Balances - Cash Basis – Governmental Funds .....	11
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances – Cash Basis - Governmental Funds .....	12
Statement of Fiduciary Net Position – Cash Basis - Fiduciary Fund .....	13
Notes to the Basic Financial Statements .....	15
Management's Discussion and Analysis - For the Fiscal Year Ended June 30, 2014 .....	39
Basic Financial Statements - For the Fiscal Year Ended June 30, 2014:	
Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis .....	45
Statement of Activities – Cash Basis .....	46
Fund Financial Statements:	
Statement of Assets and Fund Balances - Cash Basis – Governmental Funds .....	47
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances Cash Basis - Governmental Funds .....	48
Statement of Fiduciary Net Assets – Cash Basis - Fiduciary Fund .....	49
Notes to the Basic Financial Statements .....	51
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....	67
Schedule of Findings.....	69
Schedule of Prior Audit Findings.....	71

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## Independent Auditor's Report

Allen County Educational Service Center  
Allen County  
1920 Slabtown Road  
Lima, Ohio 45801

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio (the Service Center) as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 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 Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio, as of June 30, 2015 and 2014, and the respective changes in cash financial position for the General and Bus Driver Training Program funds thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the 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**

*Other Information*

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2016, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.



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

July 12, 2016

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

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

---

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

***Financial Highlights***

Key financial highlights for fiscal year 2015 are as follows:

- q General receipts accounted for \$566,286 or 8 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$6,899,331 or 92 percent of total receipts of \$7,465,617.
- q In total, program disbursements were \$7,681,578.
- q In total, net position decreased \$215,961.

***Using this Annual Report***

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2015, the General Fund and Bus Driver Training Program Fund are the Service Center's most significant funds.

***Basis of Accounting***

The Service Center has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

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

---

***Reporting the Service Center as a Whole***

*Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the Service Center's programs and services, including instruction and support services.

***Reporting the Service Center's Most Significant Funds***

*Fund Financial Statements*

The analysis of the Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds include the General Fund and the Bus Driver Training Program Fund.

**Governmental Funds** - All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

***Reporting the Service Center's Fiduciary Responsibilities***

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 13. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

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

**The Service Center as a Whole**

Table 1 provides a summary of the Service Center's net position for fiscal year 2015 compared to 2014.

**(Table 1)  
Net Position – Cash Basis**

	Governmental Activities	
	2015	2014
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 436,210	\$ 652,171
<i>Total Assets</i>	436,210	652,171
<b>Net Position</b>		
Restricted for:		
Bus Driver Training Program	122,576	114,987
Science Enhancement for Science Advancement	0	48,082
Other Purposes	41,455	0
Unrestricted	272,179	489,102
<i>Total Net Position</i>	\$ 436,210	\$ 652,171

Net position of the governmental activities decreased \$215,961 which represents a 33 percent decrease from fiscal year 2014. This is due to a decrease in receipts of \$154,259 and an increase in disbursements of \$94,471.

A portion of the Service Center's net position, \$164,031, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$272,179 may be used to meet the Service Center's ongoing obligations.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

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

Table 2 shows the changes in net position for fiscal year 2015 as compared to fiscal year 2014.

**(Table 2)  
Changes in Net Position – Cash Basis**

	Governmental Activities	
	2015	2014
<b>Receipts</b>		
<b><i>Program Receipts</i></b>		
Charges for Services and Sales	\$ 6,554,777	\$ 6,517,380
Operating Grants and Contributions	344,554	338,902
<i>Total Program Receipts</i>	<u>6,899,331</u>	<u>6,856,282</u>
<b><i>General Receipts</i></b>		
Grants and Entitlements not Restricted to		
Specific Programs	480,273	670,417
Investment Earnings	182	380
Miscellaneous	85,831	92,797
<i>Total General Receipts</i>	<u>566,286</u>	<u>763,594</u>
<i>Total Receipts</i>	<u>7,465,617</u>	<u>7,619,876</u>
<b><i>Program Disbursements</i></b>		
Instruction:		
Regular	473,811	463,865
Special	3,141,730	3,035,613
Support Services:		
Pupils	2,525,027	2,533,232
Instructional Staff	506,266	517,592
Board of Education	12,001	12,985
Administration	611,369	656,448
Fiscal	195,761	182,808
Business	826	846
Operation and Maintenance of Plant	100	0
Pupil Transportation	212,828	180,532
Operation of Non-Instructional Services	1,859	3,186
<i>Total Program Disbursements</i>	<u>7,681,578</u>	<u>7,587,107</u>
<i>Change in Net Position</i>	(215,961)	32,769
<i>Net Position Beginning of Year</i>	<u>652,171</u>	<u>619,402</u>
<i>Net Position End of Year</i>	<u>\$ 436,210</u>	<u>\$ 652,171</u>

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

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

Increased charges for services reflect increased demand for special education services at Allen County Educational Service Center, including speech, multiple disabilities and physical therapy services. Also, unrestricted grants decreased due to State cuts. An increase in special instruction in the amount of \$106,117 can be attributed to a new program to meet the increased demand for special education.

**Governmental Activities**

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

**(Table 3)  
Governmental Activities – Cash Basis**

	Total Costs of Services		Net Costs of Services	
	2015	2014	2015	2014
<b><i>Program Disbursements</i></b>				
<i>Instruction:</i>				
Regular	\$ 473,811	\$ 463,865	\$ 44,404	\$ 42,361
Special	3,141,730	3,035,613	135,332	131,680
<i>Support Services:</i>				
Pupils	2,525,027	2,533,232	262,696	261,640
Instructional Staff	506,266	517,592	72,826	22,771
Board of Education	12,001	12,985	12,001	12,985
Administration	611,369	656,448	63,605	72,822
Fiscal	195,761	182,808	195,761	182,808
Business	826	846	826	846
Operation and Maintenance of Plant	100	0	100	0
Operation of Non-Instructional Services	1,859	3,186	1,859	3,186
Pupil Transportation	212,828	180,532	(7,163)	(274)
<i>Total</i>	<u>\$ 7,681,578</u>	<u>\$ 7,587,107</u>	<u>\$ 782,247</u>	<u>\$ 730,825</u>

Program receipts account for 90 percent of total governmental disbursements, the most significant of which is contract services. The Service Center's dependence on contract services and tuition and fees is evident.

***The Service Center's Funds***

The Service Center's governmental funds are accounted for using the cash basis of accounting.

The Service Center's governmental funds reported a combined fund balance of \$436,210, which is less than the prior year balance of \$652,171.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

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

---

The general fund had total cash receipts of \$7,083,262. The cash disbursements of the general fund totaled \$7,274,185. The general fund's fund balance decreased \$216,923 in fiscal year 2015. The decrease in fund balance can be attributed to a decrease in state foundation receipts and an increase in special instruction disbursements.

The Bus Driving Training Fund had total cash receipts of \$220,417 and total cash disbursements of \$212,828, for an increase in fund balance of \$7,589.

***Current Issues***

Even though the Allen County Educational Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the State Foundation Program, grants and contracts secured with the local school districts.

The Service Center's largest receipt stream is the contracts secured with the local schools for the services offered. The Service Center is like any other business: trying to do more with less. As staff retire or resign, they are not replaced if at all possible. The employees are paying more for their benefits.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff needs over the next several years.

***Contacting the Service Center's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, OH 45801-3309.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Net Position - Cash Basis*  
*June 30, 2015*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 436,210
<i>Total Assets</i>	\$ 436,210
<b>Net Position</b>	
Restricted for:	
Bus Driver Training Program	\$ 122,576
Other Purposes	41,455
Unrestricted	272,179
<i>Total Net Position</i>	\$ 436,210

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Activities - Cash Basis*  
*For the Fiscal Year Ended June 30, 2015*

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 473,811	\$ 382,407	\$ 47,000	\$ (44,404)
Special	3,141,730	2,980,597	25,801	(135,332)
Support Services:				
Pupils	2,525,027	2,262,331	0	(262,696)
Instructional Staff	506,266	344,303	89,137	(72,826)
Board of Education	12,001	0	0	(12,001)
Administration	611,369	547,764	0	(63,605)
Fiscal	195,761	0	0	(195,761)
Business	826	0	0	(826)
Operation and Maintenance of Plant	100	0	0	(100)
Pupil Transportation	212,828	37,375	182,616	7,163
Operation of Non-Instructional Services	1,859	0	0	(1,859)
<i>Totals</i>	<u>\$ 7,681,578</u>	<u>\$ 6,554,777</u>	<u>\$ 344,554</u>	<u>(782,247)</u>
<b>General Receipts</b>				
				480,273
				182
				85,831
				<u>566,286</u>
				<i>Change in Net Position</i>
				(215,961)
				<i>Net Position Beginning of Year</i>
				<u>652,171</u>
				<i>Net Position End of Year</i>
				<u>\$ 436,210</u>

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2015*

	General Fund	Bus Driver Training Program Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 272,179	\$ 122,576	\$ 41,455	\$ 436,210
<i>Total Assets</i>	<u>\$ 272,179</u>	<u>\$ 122,576</u>	<u>\$ 41,455</u>	<u>\$ 436,210</u>
<b>Fund Balances</b>				
Restricted	\$ 0	\$ 122,576	\$ 41,455	\$ 164,031
Assigned	272,179	0	0	272,179
<i>Total Fund Balances</i>	<u>\$ 272,179</u>	<u>\$ 122,576</u>	<u>\$ 41,455</u>	<u>\$ 436,210</u>

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*in Fund Balances - Cash Basis - Governmental Funds*  
*For the Fiscal Year Ended June 30, 2015*

	General Fund	Bus Driver Training Program Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Intergovernmental	\$ 480,273	\$ 104,866	\$ 102,438	\$ 687,577
Investment Income	182	0	0	182
Contract Services	6,139,951	0	0	6,139,951
Extracurricular Activities	1,724	0	0	1,724
Tuition and Fees	285,675	115,125	0	400,800
Gifts and Donations	0	0	59,500	59,500
Charges for Services	90,051	0	0	90,051
Miscellaneous	85,406	426	0	85,832
<i>Total Receipts</i>	<u>7,083,262</u>	<u>220,417</u>	<u>161,938</u>	<u>7,465,617</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	426,811	0	47,000	473,811
Special	3,116,149	0	25,581	3,141,730
Support Services:				
Pupils	2,525,027	0	0	2,525,027
Instructional Staff	384,282	0	121,984	506,266
Board of Education	12,001	0	0	12,001
Administration	611,369	0	0	611,369
Fiscal	195,761	0	0	195,761
Business	826	0	0	826
Operation and Maintenance of Plant	100	0	0	100
Pupil Transportation	0	212,828	0	212,828
Operation of Non-Instructional Services	1,859	0	0	1,859
<i>Total Disbursements</i>	<u>7,274,185</u>	<u>212,828</u>	<u>194,565</u>	<u>7,681,578</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	26,000	26,000
Advances Out	(26,000)	0	0	(26,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(26,000)</u>	<u>0</u>	<u>26,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(216,923)	7,589	(6,627)	(215,961)
<i>Fund Balances Beginning of Year</i>	<u>489,102</u>	<u>114,987</u>	<u>48,082</u>	<u>652,171</u>
<i>Fund Balances End of Year</i>	<u>\$ 272,179</u>	<u>\$ 122,576</u>	<u>\$ 41,455</u>	<u>\$ 436,210</u>

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2015*

---

---

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 13,506,869
<i>Total Assets</i>	<u>\$ 13,506,869</u>
<b>Net Position</b>	
Held in Trust for:	
Pool Participants	\$ 13,475,857
Others	<u>31,012</u>
<i>Total Net Position</i>	<u>\$ 13,506,869</u>

See accompanying notes to the basic financial statements.

*This page intentionally left blank.*

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

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

The Allen County Educational Service Center (the “Service Center”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected governing board (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

**Reporting Entity**

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

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

The Service Center is associated with two jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, State Support Team Region 6, the Schools of Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 8 and 9 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Service Center's accounting policies.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

**A. Basis of Accounting**

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources 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.

**B. Basis of Presentation - Fund Accounting**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Position-Cash Basis* and *Statement of Activities-Cash Basis* display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all funds.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds:

**General Fund** - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Bus Driver Training Program Fund** - The Bus Driver Training Program Fund accounts for the resources to pay for training services to educate various school district bus drivers.

Other governmental funds, including the Student Enhancement for Student Advancement (SESA) fund of the Service Center, account for grants and other resources to which the Service Center is bound to observe imposed constraints imposed by the use of the resources.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The Service Center's agency funds are established for employee benefit plans, academic quiz bowl activities, and the regional school improvement team.

**C. Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures to assist them in fiscal accountability.

**D. Cash, Cash Equivalents and Investments**

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Allen County Schools' Health Benefit Plan Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which are not purchased from pooled monies 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 2015, investments were limited to STAR Ohio, STAR Plus, Federal Agency Securities and Money Market Funds.

STAR 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 does operated in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2015.

The Service Center also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2014 were \$182, which included \$76 assigned from other funds.

**E. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

**F. Accumulated 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 used by the Service Center.

**G. Intergovernmental Receipts**

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

**H. Inventory and Prepaid Items**

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

**I. Flow-Through Grants**

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2015, this includes the Preschool Grant.

**J. Interfund Activity**

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

**K. Employer Contributions to Cost-Sharing Pension Plans**

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

## **L. Equity Classifications**

### *GOVERNMENT-WIDE STATEMENTS*

Equity is classified as net position and displayed in separate components:

1. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net position restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes. The Service Center did not have any net position restricted by enabling legislation.
2. Unrestricted net position – All other net position that do not meet the definition of “restricted.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net position are available.

### *FUND FINANCIAL STATEMENTS*

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

- a. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

- d. Assigned - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.
- e. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**M. Receipts and Disbursements**

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as primary receipts. As described further in Note 4, the Service Center's primary receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

**N. Implementation of New Accounting Principles**

For the fiscal year ended June 30, 2015, the ESC has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, GASB Statement No. 69, Government Combinations and Disposals of Government Operations and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. See Note 6 for further information.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the ESC.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See Note 6 for further information.

The implementation of GASB Statement No. 68 and No. 71 did not have an effect on the financial statements of the Service Center.

**O. 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.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Service 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 Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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.

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

***Deposits***

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

At June 30, 2015, the carrying amount of the Service Center's deposits was \$10,967,177 and the bank balance was \$11,199,683. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$7,684,851 was covered by federal depository insurance, which includes \$7,184,851 held in a STAR Plus account, and \$3,514,832 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

***Investments***

All investments are reported at cost. As of June 30, 2015, the Service Center's investments were as follows:

	Cost	Maturities (at Cost)		Percentage of Total
		<1 yr	1-5 yrs	
Federal National Mortgage Association notes	\$ 149,691	\$ 0	\$ 149,691	5.03%
Federal Home Loan Bank notes	1,293,845	195,025	1,098,820	43.48%
Money markets	6,517	6,517	0	0.22%
STAROhio	1,525,849	1,525,849	0	51.27%
Total	<u>\$ 2,975,902</u>	<u>\$ 1,727,391</u>	<u>\$ 1,248,511</u>	<u>100.00%</u>

***Interest Rate Risk***

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2015, is 53 days.

***Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The Money Market Funds carry a rating of AAAM and Federal Agency Securities carry a rating of AA+ by Standard and Poor's. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carried a rating of AAAM by Standard and Poor's. All investments are held by the investment's counterparty and not in the name of the Service Center.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

*Concentration Risk*

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center's investments are summarized above.

**NOTE 4 - PRIMARY RECEIPT SOURCES**

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local Service Centers and paid under contract by the local Service Centers.

**A. State Foundation Distributions - Amounts Paid by the State**

This section has two parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted education. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM) of the local districts within the limits of the Service Center's territory times \$37.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

**B. State Foundation Distributions**

**1. Amounts Paid by the Local Districts**

This section has one part. It represents the per pupil amount paid by the districts. Each Service Center's per pupil amount is determined by multiplying the ADM of the school districts served by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contract services.

**2. Amounts Paid under Contract by Local School Districts**

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

**NOTE 5 - RISK MANAGEMENT**

**A. Property and Liability**

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$ 3,134,962
Automobile Liability	5,000,000
General Liability	
Per occurrence	5,000,000
Total per year	7,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

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

The Service Center participates in the Schools of Ohio Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self-insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self-insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The Third Party Administrator is Frank Gates Service Company.

**B. Workers' Compensation**

For fiscal year 2015, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**C. Health Care Benefits**

The Service Center participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the school districts within Allen County. The Service Center pays monthly premiums to the Plan for employee medical and dental benefits.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 9, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Gallagher Benefit Services, Dearborn National and American Fidelity, respectively. In fiscal year 2015, the Service Center contributed \$1,874 to the life insurance plan and \$8,598 to the cafeteria 125 flexible plan.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

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

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

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Service Center’s contractually required contribution to SERS was \$120,200 for fiscal year 2015.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

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

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

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

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

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

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

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Service Center's contractually required contribution to STRS was \$584,804 for fiscal year 2015.

***Net Pension Liability***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service Center's proportion of the net pension liability was based on the Service 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:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 9,455,969	\$ 1,523,850	\$ 10,979,819
Proportion of the Net Pension Liability	0.03887592%	0.03011000%	

***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.

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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

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

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 2,174,081	\$ 1,523,850	\$ 976,949

**Actuarial Assumptions - STRS**

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

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

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

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

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 13,537,251	\$ 9,455,969	\$ 6,004,578

**NOTE 7 - POSTEMPLOYMENT BENEFITS**

***A. School Employees Retirement System***

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$18,689, \$12,398 and \$12,207, respectively. For fiscal year 2015, 100 percent has been contributed. The full amount has been contributed for fiscal years 2014 and 2013.

***B. State Teachers Retirement System***

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

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Service Center’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$40,246, and \$40,115, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative**

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**B. State Support Team Region 6**

The State Support Team Region 6 (“SST6”) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SST6 is governed by a board of 52 members made up of the 50 superintendents of the participating Service Centers, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating Service Center is limited to its representation on the Board. Financial information can be obtained by contacting Becky Rees, Director, at 1045 Dearbaugh, Suite #1, Wapakoneta, Ohio 45895.

**NOTE 9 - INSURANCE PURCHASING POOLS**

**A. Schools of Ohio Risk Sharing Authority**

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**B. Ohio School Boards Association Workers' Compensation Group Rating Program**

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan.

Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Plan.

**C. Allen County Schools Health Benefit Plan**

The Service Center participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the Service Centers within Allen County. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school districts superintendent is appointed to a Board of Directors which advises the Trustees, American Fidelity and Gallagher Benefit Services concerning aspects of the administration of the Trust.

**NOTE 10 - OPERATING LEASES**

The Service Center is obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2009 for a term of 60 months with monthly payments of \$9,771. Payments are made from the general fund and totaled \$117,250 for fiscal year 2015.

**Allen County Educational Service Center**  
Allen County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

---

**NOTE 11 – CONTINGENCIES**

***A. Grants***

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

***B. Litigation***

The Service Center is not party to any claims or lawsuits that would, in the Service Center’s opinion, have a material effect of the basic financial statements.

***C. Significant Encumbrances***

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

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 24,968
Bus Driver Training Program	25,117
Other Governmental	1,190
	<u>\$ 51,275</u>

**Allen County Educational Service Center**  
 Allen County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015

**NOTE 12 – FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>Restricted for:</b>				
Bus Driver Training Program	\$ 0	\$ 122,576	\$ 0	\$ 122,576
Science Enhancement for Science Advancement	0	0	41,153	41,153
Other Purposes	<u>0</u>	<u>0</u>	<u>302</u>	<u>302</u>
Total Restricted	<u>0</u>	<u>122,576</u>	<u>41,455</u>	<u>164,031</u>
<b>Assigned for:</b>				
Support Services	24,246	0	0	24,246
Instruction	722	0	0	722
Subsequent Year Appropriations	<u>247,211</u>	<u>0</u>	<u>0</u>	<u>247,211</u>
Total Assigned	<u>272,179</u>	<u>0</u>	<u>0</u>	<u>272,179</u>
<b>Total Fund Balance</b>	<u>\$ 272,179</u>	<u>\$ 122,576</u>	<u>\$ 41,455</u>	<u>\$ 436,210</u>

**NOTE 13 – ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2015, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

---

The discussion and analysis of the Allen County Educational Service Center's ("Service Center") financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

***Financial Highlights***

Key financial highlights for fiscal year 2014 are as follows:

- General receipts accounted for \$763,594 or 10 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$6,856,282 or 90 percent of total receipts of \$7,619,876.
- In total, program disbursements were \$7,587,107.
- In total, net position increased \$32,769.

***Using this Annual Report***

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2014, the General Fund and Bus Driver Training Program Fund are the Service Center's most significant funds.

***Basis of Accounting***

The Service Center has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

---

***Reporting the Service Center as a Whole***

*Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the Service Center's programs and services, including instruction and support services.

***Reporting the Service Center's Most Significant Funds***

*Fund Financial Statements*

The analysis of the Service Center's major funds begins on page 43. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds include the General Fund and the Bus Driver Training Program Fund.

**Governmental Funds** - All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

***Reporting the Service Center's Fiduciary Responsibilities***

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 49. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

**The Service Center as a Whole**

Table 1 provides a summary of the Service Center's net position for fiscal year 2014 compared to 2013.

**(Table 1)  
Net Position – Cash Basis**

	Governmental Activities	
	2014	2013
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 652,171	\$ 619,402
<i>Total Assets</i>	<u>652,171</u>	<u>619,402</u>
<b>Net Position</b>		
Restricted for:		
Bus Driver Training Program	114,987	114,713
Science Enhancement for Science Advancement	48,082	35,621
Other Purposes	0	1,642
Unrestricted	<u>489,102</u>	<u>467,426</u>
<i>Total Net Position</i>	<u>\$ 652,171</u>	<u>\$ 619,402</u>

Net position of the governmental activities increased \$32,769 which represents a 5 percent increase from fiscal year 2013. This is due to an increase in program receipts and a decrease in instructional staff support services of the Service Center as a result of the timing difference of collections versus services provided to members.

A portion of the Service Center's net position, \$163,069, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$489,102 may be used to meet the Service Center's ongoing obligations.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

Table 2 shows the changes in net position for fiscal year 2014 as compared to fiscal year 2013.

**(Table 2)  
Changes in Net Position – Cash Basis**

	Governmental Activities	
	2014	2013
<b>Receipts</b>		
<b><i>Program Receipts</i></b>		
Charges for Services and Sales	\$ 6,517,380	\$ 6,351,178
Operating Grants and Contributions	338,902	383,332
<b><i>Total Program Receipts</i></b>	<b>6,856,282</b>	<b>6,734,510</b>
<b><i>General Receipts</i></b>		
Grants and Entitlements not Restricted to		
Specific Programs	670,417	806,999
Investment Earnings	380	497
Miscellaneous	92,797	56,438
<b><i>Total General Receipts</i></b>	<b>763,594</b>	<b>863,934</b>
<b><i>Total Receipts</i></b>	<b>7,619,876</b>	<b>7,598,444</b>
<b><i>Program Disbursements</i></b>		
Instruction:		
Regular	463,865	361,760
Special	3,035,613	2,964,808
Support Services:		
Pupils	2,533,232	2,504,161
Instructional Staff	517,592	609,730
Board of Education	12,985	13,246
Administration	656,448	611,823
Fiscal	182,808	183,453
Business	846	948
Pupil Transportation	180,532	201,971
Operation of Non-Instructional Services	3,186	3,091
<b><i>Total Program Disbursements</i></b>	<b>7,587,107</b>	<b>7,454,991</b>
<b><i>Change in Net Position</i></b>	<b>32,769</b>	<b>143,453</b>
<b><i>Net Position Beginning of Year</i></b>	<b>619,402</b>	<b>475,949</b>
<b><i>Net Position End of Year</i></b>	<b>\$ 652,171</b>	<b>\$ 619,402</b>

Increased charges for services reflect increased demand for special education services at Allen County Educational Service Center, including speech, multiple disabilities and physical therapy services. Also, unrestricted grants decreased due to State cuts.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

**Governmental Activities**

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

**(Table 3)  
Governmental Activities – Cash Basis**

	Total Costs of Services		Net Costs of Services	
	2014	2013	2014	2013
<b><i>Program Disbursements</i></b>				
<i>Instruction:</i>				
Regular	\$ 463,865	\$ 361,760	\$ 42,361	\$ 296,197
Special	3,035,613	2,964,808	131,680	(169,973)
<i>Support Services:</i>				
Pupils	2,533,232	2,504,161	261,640	399,196
Instructional Staff	517,592	609,730	22,771	(115,704)
Board of Education	12,985	13,246	12,985	13,246
Administration	656,448	611,823	72,822	97,533
Fiscal	182,808	183,453	182,808	183,453
Business	846	948	846	948
Operation of Non-Instructional Services	3,186	3,091	3,186	(4,461)
Pupil Transportation	180,532	201,971	(274)	20,046
<b><i>Total</i></b>	<b><u>\$ 7,587,107</u></b>	<b><u>\$ 7,454,991</u></b>	<b><u>\$ 730,825</u></b>	<b><u>\$ 720,481</u></b>

Program receipts account for 90 percent of total governmental disbursements, the most significant of which is contract services. The Service Center's dependence on contract services and tuition and fees is evident.

***The Service Center's Funds***

The Service Center's governmental funds are accounted for using the cash basis of accounting.

The Service Center's governmental funds reported a combined fund balance of \$652,171, which is greater than the prior year balance of \$619,402.

The general fund had total cash receipts of \$7,205,034. The cash disbursements of the general fund totaled \$7,183,358. The general fund's fund balance increased \$21,676 in fiscal year 2014. The increase in fund balance can be attributed to an increase in contract services receipts.

The Bus Driving Training Fund had total cash receipts of \$180,806 and total cash disbursements of \$180,532, for an increase in fund balance of \$274.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY, OHIO**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)*

---

***Current Issues***

Even though the Allen County Educational Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the State Foundation Program, grants and contracts secured with the local school districts.

The Service Center's largest receipt stream is the contracts secured with the local schools for the services offered. The Service Center is like any other business: trying to do more with less. As staff retire or resign, they are not replaced if at all possible. The employees are paying more for their benefits.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff needs over the next several years.

***Contacting the Service Center's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, OH 45801-3309.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Net Position - Cash Basis*  
*June 30, 2014*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 652,171
<i>Total Assets</i>	\$ 652,171
<b>Net Position</b>	
Restricted for:	
Bus Driver Training Program	\$ 114,987
Science Enhancement for Science Advancement	48,082
Unrestricted	489,102
<i>Total Net Position</i>	\$ 652,171

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Activities - Cash Basis*  
*For the Fiscal Year Ended June 30, 2014*

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 463,865	\$ 367,785	\$ 53,719	\$ (42,361)
Special	3,035,613	2,878,179	25,754	(131,680)
Support Services:				
Pupils	2,533,232	2,271,592	0	(261,640)
Instructional Staff	517,592	340,258	154,563	(22,771)
Board of Education	12,985	0	0	(12,985)
Administration	656,448	583,626	0	(72,822)
Fiscal	182,808	0	0	(182,808)
Business	846	0	0	(846)
Pupil Transportation	180,532	75,940	104,866	274
Operation of Non-Instructional Services	3,186	0	0	(3,186)
<i>Totals</i>	<u>\$ 7,587,107</u>	<u>\$ 6,517,380</u>	<u>\$ 338,902</u>	<u>(730,825)</u>
<b>General Receipts</b>				
				670,417
Grants and Entitlements not Restricted to Specific Programs				380
Investment Earnings				92,797
Miscellaneous				<u>763,594</u>
<i>Total General Receipts</i>				
				<u>32,769</u>
<i>Change in Net Position</i>				
				<u>619,402</u>
<i>Net Position Beginning of Year</i>				
				<u>\$ 652,171</u>
<i>Net Position End of Year</i>				

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2014*

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 489,102	\$ 114,987	\$ 48,082	\$ 652,171
<i>Total Assets</i>	<u>\$ 489,102</u>	<u>\$ 114,987</u>	<u>\$ 48,082</u>	<u>\$ 652,171</u>
<b>Fund Balances</b>				
Restricted	\$ 0	\$ 114,987	\$ 48,082	\$ 163,069
Assigned	489,102	0	0	489,102
<i>Total Fund Balances</i>	<u>\$ 489,102</u>	<u>\$ 114,987</u>	<u>\$ 48,082</u>	<u>\$ 652,171</u>

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Receipts, Disbursements and Changes*  
*in Fund Balances - Cash Basis - Governmental Funds*  
*For the Fiscal Year Ended June 30, 2014*

	General Fund	Bus Driver Training Program Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Intergovernmental	\$ 670,417	\$ 104,866	\$ 154,536	\$ 929,819
Investment Income	380	0	0	380
Contract Services	6,351,661	0	0	6,351,661
Extracurricular Activities	2,639	0	0	2,639
Tuition and Fees	87,140	75,940	0	163,080
Gifts and Donations	0	0	79,500	79,500
Miscellaneous	92,797	0	0	92,797
<i>Total Receipts</i>	<u>7,205,034</u>	<u>180,806</u>	<u>234,036</u>	<u>7,619,876</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	410,146	0	53,719	463,865
Special	3,009,859	0	25,754	3,035,613
Support Services:				
Pupils	2,533,232	0	0	2,533,232
Instructional Staff	379,448	0	138,144	517,592
Board of Education	12,985	0	0	12,985
Administration	650,848	0	5,600	656,448
Fiscal	182,808	0	0	182,808
Business	846	0	0	846
Pupil Transportation	0	180,532	0	180,532
Operation of Non-Instructional Services	3,186	0	0	3,186
<i>Total Disbursements</i>	<u>7,183,358</u>	<u>180,532</u>	<u>223,217</u>	<u>7,587,107</u>
<i>Net Change in Fund Balances</i>	21,676	274	10,819	32,769
<i>Fund Balances Beginning of Year</i>	<u>467,426</u>	<u>114,713</u>	<u>37,263</u>	<u>619,402</u>
<i>Fund Balances End of Year</i>	<u>\$ 489,102</u>	<u>\$ 114,987</u>	<u>\$ 48,082</u>	<u>\$ 652,171</u>

See accompanying notes to the basic financial statements.

**Allen County Educational Service Center**  
**Allen County, Ohio**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2014*

---

---

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 13,165,764
<i>Total Assets</i>	<u>\$ 13,165,764</u>
<b>Net Position</b>	
Held in Trust for:	
Pool Participants	\$ 13,137,771
Others	<u>27,993</u>
<i>Total Net Position</i>	<u>\$ 13,165,764</u>

See accompanying notes to the basic financial statements.

*This page intentionally left blank.*

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

## **NOTE 1 - DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY**

The Allen County Educational Service Center (the "Service Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected governing board (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

### **Reporting Entity**

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

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

The Service Center is associated with two jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, State Support Team Region 6, the Schools of Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 8 and 9 to the basic financial statements.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Service Center's accounting policies.

### **A. Basis of Accounting**

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources 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.

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

## **B. Basis of Presentation - Fund Accounting**

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Position-Cash Basis* and *Statement of Activities-Cash Basis* display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

### FUND FINANCIAL STATEMENTS

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all funds.

The funds of the financial reporting entity are described below:

#### Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds:

**General Fund** - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**Bus Driver Training Program Fund** - The Bus Driver Training Program Fund accounts for the resources to pay for training services to educate various school district bus drivers.

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

Other governmental funds, including the Student Enhancement for Student Advancement (SESA) fund of the Service Center, account for grants and other resources to which the Service Center is bound to observe imposed constraints imposed by the use of the resources.

## Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The Service Center's agency funds are established for employee benefit plans, academic quiz bowl activities, and the regional school improvement team.

### **C. Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures to assist them in fiscal accountability.

### **D. Cash, Cash Equivalents and Investments**

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Allen County Schools' Health Benefit Plan Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which are not purchased from pooled monies 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 2014, investments were limited to STAROhio, STAR Plus, Federal Agency Securities and US Treasury Money Market Funds.

STAROhio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operated in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2014.

The Service Center also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

# Allen County Educational Service Center

Allen County, Ohio

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014*

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2014 were \$380, which included \$95 assigned from other funds.

### **E. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

### **F. Accumulated 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 used by the Service Center.

### **G. Intergovernmental Receipts**

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

### **H. Inventory and Prepaid Items**

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

### **I. Flow-Through Grants**

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2014, these funds include the Preschool Grant, Parent Mentor Grant, Alternative Education Challenge Grant and the High School/Higher Education Alignment Grant.

### **J. Interfund Activity**

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

### **K. Employer Contributions to Cost-Sharing Pension Plans**

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

## **L. Equity Classifications**

### *GOVERNMENT-WIDE STATEMENTS*

Equity is classified as net position and displayed in separate components:

1. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. The Service Center did not have any net position restricted by enabling legislation.
2. Unrestricted net position – All other net position that do not meet the definition of “restricted.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net position are available.

### *FUND FINANCIAL STATEMENTS*

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

- a. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.
- e. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

# Allen County Educational Service Center

Allen County, Ohio

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014*

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

### **M. Receipts and Disbursements**

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as primary receipts. As described further in Note 4, the Service Center's primary receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

### **N. Implementation of New Accounting Principles**

For the fiscal year ended June 30, 2014, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "*Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*" and GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees.*"

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Service Center.

### **NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Service 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 Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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.

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

## Allen County Educational Service Center

Allen County, Ohio

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014*

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio and STAR Plus)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

#### ***Deposits***

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At June 30, 2014, the carrying amount of the Service Center's deposits was \$10,850,415 and the bank balance was \$11,084,137. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$10,419,098 was covered by federal depository insurance, which includes \$9,919,098 held in a STAR Plus account, and \$665,039 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

**Investments**

All investments are reported at cost. As of June 30, 2014, the Service Center’s investments were as follows:

	Cost	Maturities (at Cost)		Percentage of Total
		< 1 year	1-5 years	
Federal Home Loan Bank Bonds	\$ 195,025	\$ 0	\$ 195,025	6.57%
Federal National Mortgage Association Notes	200,195	0	200,195	6.75%
Farm Credit System Banks Bonds	205,025	0	205,025	6.91%
Money Market Funds	3,621	3,621	0	0.12%
STAROhio	2,363,654	2,363,654	0	79.65%
	<u>\$ 2,967,520</u>	<u>\$ 2,367,275</u>	<u>\$ 600,245</u>	<u>100.00%</u>

**Interest Rate Risk**

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center’s investment policy addresses interest rate risk by requiring that the Service Center’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2014, is 51 days.

**Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, “Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee.”

The U.S. Treasury Money Market Funds carry a rating of AAAM and Federal Agency Securities carry a rating of AA+ by Standard and Poor’s. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. STAROhio carried a rating of AAAM by Standard and Poor’s. All investments are held by the investment’s counterparty and not in the name of the Service Center.

**Concentration Risk**

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center’s investments are summarized above.

**NOTE 4 - PRIMARY RECEIPT SOURCES**

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local Service Centers and paid under contract by the local Service Centers.

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

## **A. State Foundation Distributions - Amounts Paid by the State**

This section has two parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted education. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM) of the local districts within the limits of the Service Center's territory times \$37.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

## **B. State Foundation Distributions**

### **1. Amounts Paid by the Local Districts**

This section has one part. It represents the per pupil amount paid by the districts. Each Service Center's per pupil amount is determined by multiplying the ADM of the school districts served by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contract services.

### **2. Amounts Paid under Contract by Local School Districts**

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

## **NOTE 5 - RISK MANAGEMENT**

### **A. Property and Liability**

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$ 2,295,121
Automobile Liability	15,000,000
General Liability	
Per occurrence	15,000,000
Total per year	17,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

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

The Service Center participates in the Schools of Ohio Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self-insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self-insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The Third Party Administrator is Frank Gates Service Company.

## Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

### **B. Workers' Compensation**

For fiscal year 2014, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

### **C. Health Care Benefits**

The Service Center participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the school districts within Allen County. The Service Center pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 9, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Gallagher Benefit Services, Dearborn National and American Fidelity, respectively. In fiscal year 2014, the Service Center contributed \$2,085 to the life insurance plan and \$10,629 to the cafeteria 125 flexible plan.

## **NOTE 6 - PENSION PLANS**

### *A. School Employees Retirement System*

Plan Description - The Service Center contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

## Allen County Educational Service Center

Allen County, Ohio

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014*

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$111,099, \$120,831 and \$133,876, respectively; 90 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

#### *B. State Teachers Retirement System*

Plan Description - The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$523,200, \$521,495 and \$520,762, respectively; 84 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$33,790 made by the Service Center and \$26,550 made by the plan members.

## Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

### *C. Social Security System*

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

## **NOTE 7 - POSTEMPLOYMENT BENEFITS**

### *A. School Employees Retirement System*

Plan Description – The Service Center participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B 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. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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.

The Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$12,398, \$12,207, and \$21,159, respectively; 90 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76 percent of covered payroll. The Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$6,445, \$6,826, and \$7,906, respectively; 90 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

## Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

### *B. State Teachers Retirement System*

Plan Description - The Service 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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (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 fiscal year 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$40,246, \$40,115, and \$40,059, respectively; 84 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

## **NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS**

### **A. Northwest Ohio Area Computer Services Cooperative**

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

### **B. State Support Team Region 6**

The State Support Team Region 6 ("SST6") is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SST6 is governed by a board of 52 members made up of the 50 superintendents of the participating Service Centers, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating Service Center is limited to its representation on the Board. Financial information can be obtained by contacting Becky Rees, Director, at 1045 Dearbaugh, Suite #1, Wapakoneta, Ohio 45895.

# Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

## **NOTE 9 - INSURANCE PURCHASING POOLS**

### **A. Schools of Ohio Risk Sharing Authority**

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

### **B. Ohio School Boards Association Workers' Compensation Group Rating Program**

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan.

Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Plan.

### **C. Allen County Schools Health Benefit Plan**

The Service Center participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the Service Centers within Allen County. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school districts superintendent is appointed to a Board of Directors which advises the Trustees, American Fidelity and Gallagher Benefit Services concerning aspects of the administration of the Trust.

## **NOTE 10 - OPERATING LEASES**

The Service Center is obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2009 for a term of 60 months with monthly payments of \$9,771. Payments are made from the general fund and totaled \$117,250 for fiscal year 2014.

## **NOTE 11 – CONTINGENCIES**

### **A. Grants**

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2014, if applicable, cannot be determined at this time.

## Allen County Educational Service Center

Allen County, Ohio

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014*

### **B. Litigation**

The Service Center is not party to any claims or lawsuits that would, in the Service Center's opinion, have a material effect of the basic financial statements.

### **C. Significant Encumbrances**

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

Fund	Amount
General Fund	\$ 29,247
Bus Driver Training Program	848
Other Governmental	17,120
	\$ 47,215

### **NOTE 12 – FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Bus Driver Training Program Fund	Other Governmental	Total Governmental
<b>Restricted for:</b>				
Bus Driver Training Program	\$ 0	\$ 114,987	\$ 0	\$ 114,987
Science Enhancement for Science Advancement	0	0	48,082	48,082
Total Restricted	0	114,987	48,082	163,069
<b>Assigned for:</b>				
Support Services	23,341	0	0	23,341
Instruction	5,906	0	0	5,906
Subsequent Year Appropriations	459,855	0	0	459,855
Total Assigned	489,102	0	0	489,102
<b>Total Fund Balance</b>	\$ 489,102	\$ 114,987	\$ 48,082	\$ 652,171

### **NOTE 13 – ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2014, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

*This page intentionally left blank.*



# 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

Allen County Educational Service Center  
Allen County  
1920 Slabtown Road  
Lima, Ohio 45801

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 Allen County Educational Service Center, Allen County, (the Service Center) as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated July 12, 2016 wherein we noted the Service 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 Service 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 Service 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 Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the Service 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 2015-002.

***Entity's Response to Findings***

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

***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 Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

July 12, 2016

ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2015 AND 2014

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

FINDING NUMBER 2015-001

**Material Weakness – Accuracy of Financial Reporting**

The Service Center should have procedures and controls in place to help prevent errors in the financial statements. The following errors were identified in the 2015 financial statements:

- General Fund receipts in the amount of \$6,139,951, for services provided to school districts were classified as tuition and fees instead of contract services; and
- The December 31, 2015 ending balance of the Parent Mentor Grant Fund in the amount of \$83 was recorded on the Fiduciary Statement of Net Position instead of the Governmental Statement of Assets and Fund Balances. As a result, receipts in the amount of \$27,837, disbursements in the amount of \$27,754, and the ending balance of \$83, were not recorded on the Governmental Statement of Receipts, Disbursements, and Changes in Fund Balances.

Classification errors not only can mislead the user but may also result in the material misstatement of the financial statements. The accompanying financial statements were adjusted to correct these errors.

Prior to filing the annual financial statements, the Service Center should perform a review to help ensure accuracy of the financial statements. Also, the Service Center should review Auditor of State Bulletins and other reference materials, which can be found on the Auditor of State Website at <https://ohioauditor.gov/>, to further the understanding of financial reporting requirements.

**OFFICIALS' RESPONSE:** The compiler and I have already discussed the finding and will avoid this error on the 2016-2017 financial statements. I realize the tremendous work the Auditor of State has when auditing an entity. However, I wish findings, such as this one, would be explained a little clearer. The heading "Accuracy of Financial Reporting" leads one to believe there are errors with money. When, in fact, it is simply a difference of opinion on paper what to label the receipts. No funds are missing, no fraud, and either label, tuition/fees or contracted services is correct.

FINDING NUMBER 2015-002

**Noncompliance Citation**

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

**Ohio Adm. Code § 117-2-03 (B)** requires all educational service centers to file annual financial reports which are prepared using generally accepted accounting principles. The Service Center prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code §117.38 the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the Service Center should prepare its financial statements according to generally accepted accounting principles.

**FINDING NUMBER 2015-002**  
**(Continued)**

**OFFICIALS' RESPONSE:** The Allen County Educational Service Center cannot afford to use the generally accepted accounting principles method for filing the financial statement. Since this organization does not pass tax levies, have debt, own school buses or buildings, the financial statements are prepared in accordance with the cash accounting basis.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015 and 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Ohio Rev. Code Sec. 117.28 and Ohio Admin. Code Sec. 117-02-03(B) – Failed to file financial statements prepared using generally accepted accounting principles.	No	Repeated as Finding 2015-002

**This page intentionally left blank.**



# Dave Yost • Auditor of State

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER**

**ALLEN 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  
AUGUST 2, 2016**