



Dave Yost • Auditor of State

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Auglaize County Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

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 Auglaize County Educational Service Center, Auglaize County, Ohio (the Educational Service Center), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinion

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

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Educational 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

Supplemental Information

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

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

Other Information

We applied no procedures to Management's Discussion & Analysis, to the schedules of net pension liabilities and pension contributions, or to the budgetary comparison schedules for the General Fund and Autism Fund 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 14, 2016, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

July 14, 2016

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, assets of governmental activities decreased \$6,838 which represents a 0.20% decrease from 2014.
- General cash receipts accounted for \$564,972 or 5.85% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, operating grants and contributions accounted for \$9,099,266 or 94.15% of total governmental activities cash receipts of \$9,664,238.
- The Educational Service Center had \$9,671,076 in cash disbursements related to governmental activities; \$9,099,266 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$564,972 were not adequate to provide for these programs.
- The Educational Service Center's major governmental funds are the general fund and the autism fund. The general fund had \$7,962,269 in cash receipts and \$7,945,627 in cash disbursements. During fiscal year 2015, the general fund's fund cash balance increased \$16,642 from \$3,340,528 to \$3,357,170.
- The autism fund had \$928,003 in cash receipts and \$897,523 in cash disbursements. During fiscal year 2015, the autism fund's fund cash balance increased \$30,480 from \$11,854 to \$42,334.

Using these Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Educational Service Center's cash basis of accounting.

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's cash basis finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Educational Service Center, the general fund and the autism fund are by far the most significant funds, and the only governmental funds reported as a major funds.

Reporting the Educational Service Center as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

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

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(CONTINUED)

These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the Educational Service Center's net cash position and changes in that position on a cash basis. This change in net cash position is important because it tells the reader that, for the Educational Service Center as a whole, the cash basis financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Educational Service Center's facility conditions, required educational programs and other factors.

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

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

The Educational Service Center's statement of net position - cash basis and statement of activities - cash basis can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major governmental funds begins on page 11. Fund financial reports provide detailed information about the Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental funds are the general fund and the autism fund.

Governmental Funds

All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the Educational Service Center is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross receipts and disbursements on the fund financial statements to the statement of activities - cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities - cash basis. The governmental fund statements can be found on pages 15-16 of this report.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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(CONTINUED)

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the cash basis basic financial statements can be found on pages 17-35 of this report.

Budgetary Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund and the autism fund as supplementary information on pages 37-40.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the District's net pension liability. The other supplementary information can be found on pages 42 through 48 of this report.

The Educational Service Center as a Whole

Recall that the statement of net position - cash basis provides the perspective of the Educational Service Center as a whole.

The table below provides a summary of the Educational Service Center's net cash position for 2015 and 2014.

	Net Position	
	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	<u>\$ 3,404,178</u>	<u>\$ 3,411,016</u>
<u>Net Position</u>		
Restricted	\$ 111,142	\$ 71,384
Unrestricted	<u>3,293,036</u>	<u>3,339,632</u>
Total net position	<u>\$ 3,404,178</u>	<u>\$ 3,411,016</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Educational Service Center's total net position was \$3,404,178.

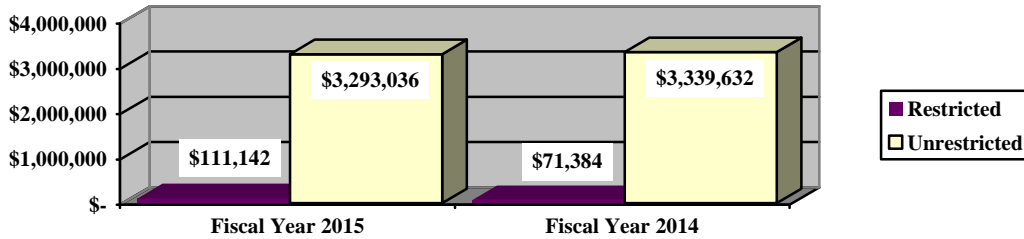
A portion of the Educational Service Center's net position, \$111,142, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net position of \$3,293,036 may be used to meet the Educational Service Center's ongoing obligations to students and creditors.

The graph below presents the Educational Service Center's governmental activities restricted and unrestricted cash position for fiscal years 2015 and 2014.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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(CONTINUED)

Governmental Activities - Restricted and Unrestricted Net Position



The table below shows the change in net cash position for fiscal years 2015 and 2014.

	Change in Net Position	
	Governmental Activities 2015	Governmental Activities 2014
<u>Cash Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 6,993,645	\$ 7,352,839
Operating grants and contributions	2,105,621	2,175,783
General cash receipts:		
Grants and entitlements	375,388	276,950
Investment earnings	6,703	9,039
Miscellaneous	182,881	183,144
Total cash receipts	<u>9,664,238</u>	<u>9,997,755</u>

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(CONTINUED)

	Change in Net Cash Position (Continued)	
	Governmental Activities 2015	Governmental Activities 2014
	<u>2015</u>	<u>2014</u>
<u>Cash Disbursements</u>		
Program disbursements:		
Instruction:		
Regular	\$ 2,370,972	\$ 2,069,579
Special	2,927,825	2,921,984
Support services:		
Pupil	1,751,121	1,703,986
Instructional staff	313,379	294,370
Board of education	18,463	47,662
Administration	1,690,454	1,944,891
Fiscal	155,299	184,436
Operations and maintenance	145,273	126,968
Pupil transportation	63,604	63,895
Central	31,072	45,273
Intergovernmental	<u>203,614</u>	<u>117,970</u>
Total cash disbursements	<u>9,671,076</u>	<u>9,521,014</u>
Change in net position	<u>(6,838)</u>	<u>476,741</u>
Net position at beginning of year	<u>3,411,016</u>	<u>2,934,275</u>
Net position at end of year	<u>\$ 3,404,178</u>	<u>\$ 3,411,016</u>

Governmental Activities

Net position of the Educational Service Center's governmental activities decreased \$6,838. Total governmental cash disbursements of \$9,671,076 were offset by program cash receipts of \$9,099,266 and general cash receipts of \$564,972. Program cash receipts supported 94.09% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts represent 72.37% of total governmental cash receipts.

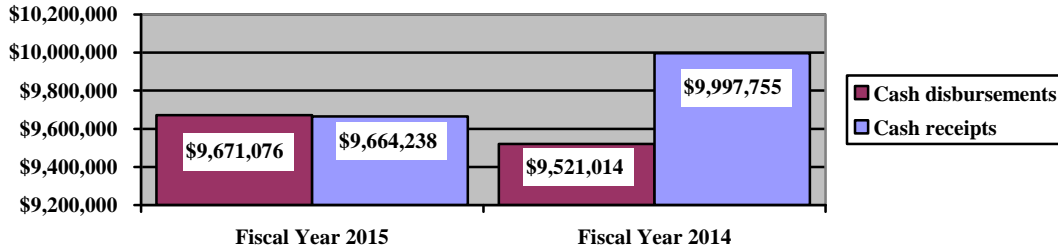
The largest cash disbursement of the Educational Service Center is for instructional services. Instructional services cash disbursements totaled \$5,298,797 or 54.79% of total governmental cash disbursements for fiscal year 2015.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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The graph below presents the Educational Service Center's governmental activities cash receipts and cash disbursements for fiscal years 2015 and 2014.

Governmental Activities - Cash Receipts and Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Program cash disbursements				
Instruction:				
Regular	\$ 2,370,972	\$ 281,405	\$ 2,069,579	\$ 1,257,729
Special	2,927,825	(62,319)	2,921,984	(5,222,779)
Support services:				
Pupil	1,751,121	211,279	1,703,986	1,245,785
Instructional staff	313,379	30,885	294,370	294,370
Board of education	18,463	2,231	47,662	47,662
Administration	1,690,454	(136,031)	1,944,891	1,944,891
Fiscal	155,299	(24,925)	184,436	118,338
Operations and maintenance	145,273	54,452	126,968	126,968
Pupil transportation	63,604	7,683	63,895	46,939
Central	31,072	3,536	45,273	14,519
Intergovernmental	203,614	203,614	117,970	117,970
Total cash disbursements	<u>\$ 9,671,076</u>	<u>\$ 571,810</u>	<u>\$ 9,521,014</u>	<u>\$ (7,608)</u>

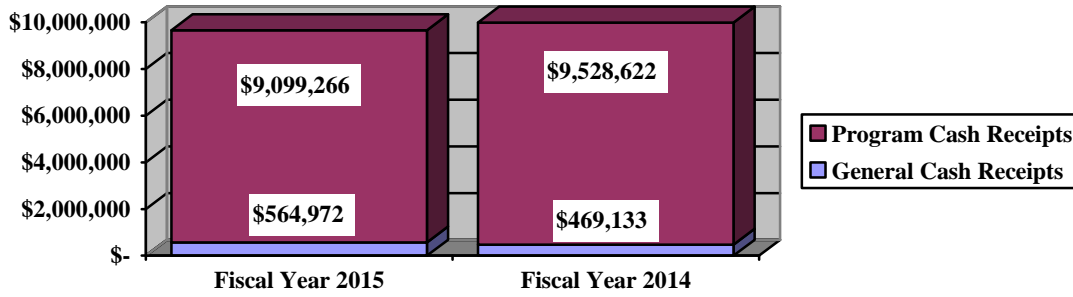
The Educational Service Center primarily depends upon charges for services provided by member districts; however, dependence upon other general cash receipts for governmental activities is apparent as 4.13% of instructional activities are supported through grants and entitlements (including State foundation) and other general cash receipts. For all governmental activities, general cash receipt support is 5.91%.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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(CONTINUED)

The graph below presents the Educational Service Center's governmental activities cash receipts for fiscal years 2015 and 2014.

Governmental Activities - General and Program Cash Receipts



The Educational Service Center's Funds

The Educational Service Center's governmental funds reported a combined fund cash balance of \$3,404,178, which is less than last year's total of \$3,411,016. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2015 and 2014.

	Fund Cash Balance <u>June 30, 2015</u>	Fund Cash Balance <u>June 30, 2014</u>	<u>Change</u>	Percentage <u>Change</u>
General	\$ 3,357,170	\$ 3,340,528	\$ 16,642	0.50 %
Autism	42,334	11,854	30,480	257.13 %
Other Governmental	<u>4,674</u>	<u>58,634</u>	<u>(53,960)</u>	(92.03) %
Total	<u>\$ 3,404,178</u>	<u>\$ 3,411,016</u>	<u>\$ (6,838)</u>	(0.20) %

General Fund

The Educational Service Center's general fund cash balance increased \$16,642 during fiscal year 2015.

Contract services increased \$256,163 or 102.19% due mainly to the Educational Service Center receiving two Mental Retardation and Developmental Disabilities (MRDD) payments during fiscal year 2015. Intergovernmental revenues decreased \$223,037 or 37.27% due to a reduction in governmental funding. Overall, revenues for the general fund decreased \$151,545 or 1.87% in fiscal year 2015.

Instructional expenses increased \$325,141 or 6.64% from 2014 due to an increase in salaries to employees classified as regular instruction. Administration expenses decreased \$53,212 during fiscal year 2015 due to a reduction in staffing expenses. Overall, expenses for the general fund increased \$303,755 or 3.97% in fiscal year 2015.

Autism Fund

The autism fund had \$928,003 in cash receipts and \$897,523 in cash disbursements. During fiscal year 2015, the autism fund's fund cash balance increased \$30,480 from \$11,854 to \$42,334.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(CONTINUED)

Capital Assets and Debt Administration

Capital Assets

The Educational Service Center does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The Educational Service Center had no debt obligations outstanding at June 30, 2015.

Current Financial Related Activities

The Ohio Department of Education received an extension through the U.S. Board of Education to extend the Race to the Top grant through fiscal year 2015. Once the grant is finalized the ESC will not renew the contracts for the employees that are currently funded by the program

Contacting the Educational Service Center's Financial Management

The financial report is designed to provide citizens, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money received. Questions about the report may be directed to: Kristy L. Weaks, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,404,178
Total assets.	3,404,178
 Net position:	
Restricted for:	
State funded programs.	13
Federally funded programs	45,880
Professional development.	65,242
Other purposes	7
Unrestricted	3,293,036
Total net position.	\$ 3,404,178

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Change in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 2,370,972	\$ 2,048,227	\$ 41,340	\$ (281,405)
Special	2,927,825	2,552,919	437,225	62,319
Support services:				
Pupil	1,751,121	1,537,491	2,351	(211,279)
Instructional staff	313,379	215,696	66,798	(30,885)
Board of education	18,463	16,232	-	(2,231)
Administration	1,690,454	322,982	1,503,503	136,031
Fiscal	155,299	127,620	52,604	24,925
Operations and maintenance	145,273	90,821	-	(54,452)
Pupil transportation	63,604	55,921	-	(7,683)
Central	31,072	25,736	1,800	(3,536)
Intergovernmental	203,614	-	-	(203,614)
Total governmental activities	<u>\$ 9,671,076</u>	<u>\$ 6,993,645</u>	<u>\$ 2,105,621</u>	<u>(571,810)</u>
General receipts:				
Grants and entitlements not restricted to specific programs				375,388
Investment earnings				6,703
Miscellaneous				182,881
Total general receipts				<u>564,972</u>
Change in net position				(6,838)
Net position at beginning of year				<u>3,411,016</u>
Net position at end of year				<u>\$ 3,404,178</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General</u>	<u>Autism</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 3,357,170	\$ 42,334	\$ 4,674	\$ 3,404,178
Total assets	<u>\$ 3,357,170</u>	<u>\$ 42,334</u>	<u>\$ 4,674</u>	<u>\$ 3,404,178</u>
Fund balances:				
Restricted:				
Autism	\$ -	\$ 42,334	\$ -	\$ 42,334
Education Management Information Systems	-	-	13	13
Professional Development.	-	-	67,356	67,356
Other purposes.	-	-	1,439	1,439
Assigned:				
Background checks.	6,493	-	-	6,493
Educational activities.	10,106	-	-	10,106
Professional Development.	49,698	-	-	49,698
Special Instruction.	332,669	-	-	332,669
Unpaid Obligations.	89,736	-	-	89,736
Unassigned (deficit)	2,868,468	-	(64,134)	2,804,334
Total fund balances	<u>\$ 3,357,170</u>	<u>\$ 42,334</u>	<u>\$ 4,674</u>	<u>\$ 3,404,178</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Autism</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Customer Services	\$ 6,933,209	\$ -	\$ -	\$ 6,933,209
Earnings on investments	6,703	-	-	6,703
Extracurricular	15,913	-	-	15,913
Classroom materials and fees	2,601	-	-	2,601
Rental income	56,645	-	-	56,645
Contributions and donations	4,542	-	2,351	6,893
Contract services	464,087	-	-	464,087
Other local revenues	103,181	-	18,015	121,196
Intergovernmental - state	375,388	-	170,591	545,979
Intergovernmental - federal	-	928,003	583,009	1,511,012
Total receipts	<u>7,962,269</u>	<u>928,003</u>	<u>773,966</u>	<u>9,664,238</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,329,632	-	41,340	2,370,972
Special	2,894,786	-	33,039	2,927,825
Support services:				
Pupil	1,748,729	-	2,392	1,751,121
Instructional staff	245,331	26,163	41,885	313,379
Board of education	18,463	-	-	18,463
Administration	367,357	829,386	493,711	1,690,454
Fiscal	145,154	-	10,145	155,299
Operations and maintenance	103,299	41,974	-	145,273
Pupil transportation	63,604	-	-	63,604
Central	29,272	-	1,800	31,072
Intergovernmental	-	-	203,614	203,614
Total disbursements	<u>7,945,627</u>	<u>897,523</u>	<u>827,926</u>	<u>9,671,076</u>
Net change in fund balances	16,642	30,480	(53,960)	(6,838)
Fund balances at beginning of year	<u>3,340,528</u>	<u>11,854</u>	<u>58,634</u>	<u>3,411,016</u>
Fund balances at end of year	<u>\$ 3,357,170</u>	<u>\$ 42,334</u>	<u>\$ 4,674</u>	<u>\$ 3,404,178</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Auglaize County Educational Service Center (the “Educational Service Center”) is located in Wapakoneta, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Minster, New Bremen, New Knoxville, and Waynesfield-Goshen Local School Districts, the St. Marys and Wapakoneta City School Districts, Ada, Hardin Northern, Kenton, and Ridgemont schools in Hardin County, and the Auglaize County Educational Academy (community school). The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 25 administrators, 104 classified employees, and 59 certified employees who provide services to the local and city school districts and the community school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This 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 Educational Service Center’s accounting policies.

A. Reporting Entity

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

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

The Educational Service Center is associated with two jointly governed organizations and three insurance pools. These organizations are the Western Ohio Computer Organization, Auglaize County Educational Academy, Schools of Ohio Risk Sharing Authority, Mercer-Auglaize Area School Employee Welfare Benefit Trust, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 10 and 11 to the basic financial statements.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

B. Basis of Presentation

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

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government.

The statement of net position presents the cash balance of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Educational Service Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Educational Service Center's general receipts.

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

C. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center only has governmental funds.

GOVERNMENTAL FUNDS

The Educational Service Center classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The Educational Service Center's major funds are the General fund and the Autism fund.

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

Autism Fund - The Autism Fund is used to account for IDEA B federal grants restricted to providing support services to teacher.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

The other governmental funds of the Educational Service Center account for grants and other resources who use is restricted, committed or assigned to a particular purpose.

D. Basis of Accounting

The Educational Service Center's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

E. Cash and Investments

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

During fiscal year 2015, the Educational Service Center's investments were limited to negotiable certificates of deposit and US Government money market accounts.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2015 was \$6,703, which included \$193 assigned from other Educational Service Center funds.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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 Educational Service Center.

H. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

I. Net Position

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. Fund Balance

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

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.

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 are imposed by law through constitutional provisions.

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

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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.

The Educational 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.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

K. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2015, this consisted of the Third Grade Reading and Preschool Handicapped special revenue funds.

L. 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 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2015, the Educational Service Center has implemented 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 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 effected the Educational Service Center's pension plan disclosures, as presented in Note 7 to the financial statements, and added required supplementary information which is presented on pages 42 - 48.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The implementation of GASB Statement No. 71 did not have an effect on the financial statements of the Educational Service Center.

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AUGLAIZE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2015 included the following individual fund deficits:

Miscellaneous State Grants	\$ 40,440
Race to the Top	23,694

These deficit cash balances resulted from a lag between disbursements made by the Educational Service Center and reimbursements from grantors and are allowable under Ohio Revised Code §3315.20.

C. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies held by the Educational Service Center 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 and interest by the United States;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$1,879,608 of the Educational Service Center's bank balance of \$2,642,431 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational 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 Educational 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.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

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

<u>Investment type</u>	<u>Total</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
US Government Money Market	\$ 764,249	\$ 764,249	\$ -
Negotiable Certificates of Deposit	<u>252,379</u>	<u>-</u>	<u>252,379</u>
 Total	 <u>\$ 1,016,628</u>	 <u>\$ 764,249</u>	 <u>\$ 252,379</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless matched to a specific obligation or debt of the Educational Service Center. The Treasurer is also restricted from purchasing investments that cannot be held until the maturity date.

The negotiable certificates of deposit are fully insured by FDIC insurance. The US Government money market carries a rating of AAAM by Standard & Poor's. The Educational Service Center has no policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds in eligible securities must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

NOTE 5 - STATE FUNDING

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$35.00 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlements of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

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

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 6 - RISK MANAGEMENT

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

Coverage provided by the Schools of Ohio Risk Sharing Authority is as follows:

General Liability	
Occurrence	\$ 15,000,000
Aggregate	17,000,000
Automobile Liability	15,000,000
Building and Contents	3,968,816

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

For fiscal year 2015, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Mercer-Auglaize Area School Employee Welfare Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District 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. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan.

NOTE 7 - 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.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

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

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

The Educational Service Center's contractually required contribution to SERS was \$257,227 for fiscal year 2015.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

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

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

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

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

The Educational Service Center's contractually required contribution to STRS Ohio was \$595,493 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 Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS (Ohio)</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 3,334,706	\$ 9,803,135	\$ 13,137,841
Proportion of the Net Pension Liability	0.06589100%	0.04030321%	

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

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

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$4,757,634	\$3,334,706	\$2,137,900

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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

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

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

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

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

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

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 Ohio's 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.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 7 - PENSION PLANS - (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$14,034,257	\$9,803,135	\$6,225,030

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Educational Service Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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 program 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 Section 3309.69 of the Ohio Revised Code. 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 (the latest information available) was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the 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 the SERS' Ohio website, 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 2015, 0.82 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 2015, the actuarially determined amount was \$20,450.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 8 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The 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. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014 and 2013 were \$48,323, \$35,001 and \$34,039, respectively; 98.09 percent has been contributed for fiscal year 2015 and 100 percent for fiscal years 2014 and 2013. For fiscal year 2015, the Educational Service Center's surcharge obligation was \$32,319.

B. State Teachers Retirement System of Ohio

Plan Description - The Educational 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 report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2015, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$41,306 and \$33,800, respectively; 100 percent has been contributed for fiscal years 2014 and 2013.

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from State laws. Eleven and twelve-month employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to eleven and twelve-month employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of forty-five days for all employees with ten or more years of service.

NOTE 9 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Health Care Benefits

The Educational Service Center offers medical and dental insurance to most employees through the Mercer-Auglaize Area School Employee Welfare Benefit Trust. Vision insurance is offered through Vision Service Plan. In addition, the Educational Service Center offers life insurance through American United Life Insurance Company.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Educational Service Center is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter educational entities within each county plus a representative from the fiscal agent educational entity. During fiscal year 2015, the Educational Service Center paid \$31,641 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

B. Auglaize County Educational Academy

The Educational Service Center is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts.

Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Wapakoneta, Ohio 45895.

NOTE 11 - INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The Educational 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 incorporated 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. SORSA's business and affairs are conducted by a 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 establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Mercer-Auglaize Area School Employee Welfare Benefit Trust

The Educational Service Center participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer-Auglaize Area School Employee Welfare Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 11 - INSURANCE POOLS - (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 12 - CONTINGENCIES

A. Grants

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

B. Litigation

The Educational Service Center has a pending matter with the Equal Employment Opportunity Commission involving a complaint filed by a former employee. The Educational Service Center believes there is a low probability that this matter will end unfavorably for the Educational Service Center.

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
From local sources:				
Customer services	\$ 8,365,000	\$ 8,365,000	\$ 6,933,028	\$ (1,431,972)
Earnings on investments	8,000	8,000	6,703	(1,297)
Classroom materials and fees	4,000	4,000	2,601	(1,399)
Rental income	60,000	60,000	56,645	(3,355)
Contributions and donations	20,000	20,000	3,867	(16,133)
Contract services.	300,500	301,500	60,436	(241,064)
Other local revenues	327,000	327,000	497,445	170,445
Intergovernmental - state	1,000,000	1,000,000	375,569	(624,431)
Total receipts	<u>10,084,500</u>	<u>10,085,500</u>	<u>7,936,294</u>	<u>(2,149,206)</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,500,000	2,500,000	2,338,433	161,567
Special.	3,500,000	3,500,000	2,896,792	603,208
Other.	1,000	1,000	-	1,000
Support services:				
Pupil.	2,000,000	2,000,000	1,756,380	243,620
Instructional staff	300,000	300,000	248,546	51,454
Board of education	60,000	60,000	24,401	35,599
Administration.	400,000	400,000	368,273	31,727
Fiscal	175,000	175,000	146,630	28,370
Operations and maintenance.	140,000	140,000	134,402	5,598
Pupil transportation	95,000	95,000	71,456	23,544
Central.	25,000	25,000	29,272	(4,272)
Total disbursements	<u>9,196,000</u>	<u>9,196,000</u>	<u>8,014,585</u>	<u>1,181,415</u>
Excess (deficiency) of receipts over (under) disbursements.	<u>888,500</u>	<u>889,500</u>	<u>(78,291)</u>	<u>(967,791)</u>
Other financing sources:				
Refund of prior year's expenditures	2,000	2,000	8,881	6,881
Total other financing sources.	<u>2,000</u>	<u>2,000</u>	<u>8,881</u>	<u>6,881</u>
Net change in fund balance	890,500	891,500	(69,410)	(960,910)
Fund balance at beginning of year (restated).	3,263,946	3,263,946	3,263,946	-
Prior year encumbrances appropriated . .	35,081	35,081	35,081	-
Fund balance at end of year	<u>\$ 4,189,527</u>	<u>\$ 4,190,527</u>	<u>\$ 3,229,617</u>	<u>\$ (960,910)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
AUTISM FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Intergovernmental - federal	\$ 1,027,829	\$ 1,027,829	\$ 928,003	\$ (99,826)
Total receipts	<u>1,027,829</u>	<u>1,027,829</u>	<u>928,003</u>	<u>(99,826)</u>
Disbursements:				
Current:				
Support Services:				
Instructional staff	96,736	96,736	26,163	70,573
Administration	1,088,717	1,088,717	834,846	253,871
Operations and maintenance	43,328	43,328	41,974	1,354
Total disbursements	<u>1,228,781</u>	<u>1,228,781</u>	<u>902,983</u>	<u>325,798</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(200,952)</u>	<u>(200,952)</u>	<u>25,020</u>	<u>225,972</u>
Other financing sources (uses):				
Transfers in	1,068	1,068	964	(104)
Transfers (out)	(1,105)	(1,105)	(964)	141
Total other financing sources (uses)	<u>(37)</u>	<u>(37)</u>	<u>-</u>	<u>37</u>
Net change in fund balance	(200,989)	(200,989)	25,020	226,009
Fund balance at beginning of year	3,633	3,633	3,633	-
Prior year encumbrances appropriated	8,221	8,221	8,221	-
Fund balance at end of year	<u>\$ (189,135)</u>	<u>\$ (189,135)</u>	<u>\$ 36,874</u>	<u>\$ 226,009</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**NOTES TO THE BUDGETARY SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 – 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.

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

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

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

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash, receipts, disbursements and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the general fund and the Autism special revenue fund are prepared on the budgetary basis to provide a meaningful comparison to actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) for the general fund and the Autism special revenue fund were \$89,856 and \$5,460, respectively.

The beginning balance of the general fund was restated from \$3,305,447 to \$3,263,946 to remove funds that are combined with the general fund for financial statement presentation but are separately budgeted.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BUDGETARY SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 – BUDGETARY PROCESS (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the Cash basis for the general fund and the Autism fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>	<u>Autism fund</u>
Budget basis	\$ (69,410)	\$ 25,020
Funds budgeted elsewhere	(3,804)	-
Adjustment for encumbrances	<u>89,856</u>	<u>5,460</u>
Cash basis	<u>\$ 16,642</u>	<u>\$ 30,480</u>

SUPPLEMENTARY INFORMATION

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2014	2013
Educational Service Center's proportion of the net pension liability	0.06589100%	0.06589100%
Educational Service Center's proportionate share of the net pension liability	\$ 3,334,706	\$ 3,918,326
Educational Service Center's covered-employee payroll	\$ 1,715,115	\$ 1,782,623
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	194.43%	219.81%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable. The amounts presented for each fiscal year were determined as of the measurement date.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2014	2013
Educational Service Center's proportion of the net pension liability	0.04030321%	0.04030321%
Educational Service Center's proportionate share of the net pension liability	\$ 9,803,135	\$ 11,677,431
Educational Service Center's covered-employee payroll	\$ 4,117,869	\$ 3,315,062
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	352.25%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable. The amounts presented for each fiscal year were determined as of the measurement date.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 257,227	\$ 237,715	\$ 246,715	\$ 232,087
Contributions in relation to the contractually required contribution	<u>(257,227)</u>	<u>(237,715)</u>	<u>(246,715)</u>	<u>(232,087)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center's covered-employee payroll	\$ 1,951,646	\$ 1,715,115	\$ 1,782,623	\$ 1,725,554
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 206,094	\$ 222,200	\$ 154,403	\$ 148,266	\$ 141,638	\$ 128,836
<u>(206,094)</u>	<u>(222,200)</u>	<u>(154,403)</u>	<u>(148,266)</u>	<u>(141,638)</u>	<u>(128,836)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,639,570	\$ 1,641,064	\$ 1,569,136	\$ 1,509,837	\$ 1,326,199	\$ 1,217,732
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 595,493	\$ 531,655	\$ 430,958	\$ 494,064
Contributions in relation to the contractually required contribution	<u>(595,493)</u>	<u>(531,655)</u>	<u>(430,958)</u>	<u>(494,064)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center's covered-employee payroll	\$ 4,253,521	\$ 4,089,654	\$ 3,315,062	\$ 3,800,492
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 424,522	\$ 486,436	\$ 470,335	\$ 409,085	\$ 370,285	\$ 305,448
<u>(424,522)</u>	<u>(486,436)</u>	<u>(470,335)</u>	<u>(409,085)</u>	<u>(370,285)</u>	<u>(305,448)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,265,554	\$ 3,741,815	\$ 3,617,962	\$ 3,146,808	\$ 2,848,346	\$ 2,349,600
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

**NOTES TO THE SCHEDULES OF PROPORTIONATE SHARE OF
OF PENSION LIABILITY AND CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
U.S. Department of Education (Passed through Ohio Department of Education)			
Special Education Cluster:			
State Support Team Region 6			
Special Education_Grants to States	84.027	\$928,967	\$898,487
Auglaize County Educational Service Center			
Special Education_Preschool Grants	84.173	\$33,039	\$33,039
State Support Team Region 6			
Special Education_Preschool Grants	84.173	48,327	47,032
Total Special Education Preschool Grants		\$81,366	\$80,071
Total Special Education Cluster		1,010,333	978,558
State Support Team Region 6			
Special Education-State Personnel Development	84.323	94,205	94,266
Improving Teacher Quality State Grants	84.367	4,200	3,300
ARRA - Race to the Top Incentive Grants, Recovery Act	84.395	379,188	411,178
ARRA - Race to the Top Early Learning Challenge	84.412	23,000	23,000
Total U.S. Department of Education		1,510,926	1,510,302
Total Federal Financial Assistance		\$1,510,926	\$1,510,302

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

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FEDERAL AWARDS EXPENDITURES ADMINISTERED FOR OTHER GOVERNMENTS

The Educational Service Center has applied for and administers grants on behalf of member school districts. The Educational Service Center reports these grants on their schedule of federal awards expenditure programs and they are subject to audit during the Educational Service Center's annual audit according to the Single Audit Act (A-133). Awards which were reported by the Educational Service Center that benefited member districts are as follows:

District	Fiscal Year 2015 Award Amount Special Education Preschool Grant
Minster Local School District	\$6,130.97
New Bremen Local School District	\$7,124.80
New Knoxville Local School District	\$3,561.18
St. Marys City School District	\$23,810.25
Total Grant	\$40,627.20

NOTE C - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The Educational Service Center transferred the following amounts from 2014 to 2015 programs:

Program Title	CFDA Number	Amount Transferred from 2014 to 2015
Special Education Grants to States	84.027	\$192,730.97
Special Education State Personnel Development	84.323	\$32,562.10

NOTE D – STATE SUPPORT TEAM REGION 6 (SST6)

The State Support Team Region 6 (SST6) is an organization comprised of the educational service centers in Allen, Auglaize Champaign, Hardin, Logan, Mercer and Shelby Counties. The purpose of the organization is to assist schools to develop quality special education programs and services. The SST6 is funded through the Ohio Department of Education in the form of Special Education Grants to States and Special Education Preschool Grants federal grants. The Educational Service Center serves as fiscal agent for the State Support Team Region 6 and reports the activity within a special revenue fund in the financial statements. The Federal grants are audited as part of the Educational Service Center and are separately identified on the Schedule of Federal Awards Receipts and Expenditures.



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*

Auglaize County Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

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 Auglaize County Educational Service Center, Auglaize County, (the Educational Service Center) as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated July 14, 2016, wherein we noted the Educational 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 Educational 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 Educational 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 Educational 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 Educational 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 Educational Service Center's response to finding 2015-001 identified in our audit is described in the accompanying schedule of findings. We did not audit the Educational Service Center's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Educational 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 Educational 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 14, 2016



Dave Yost • Auditor of State

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

Auglaize County Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Special Education Cluster

As described in finding 2015-003 in the accompanying schedule of findings, the Educational Service Center did not comply with requirements regarding cash management applicable to its *Special Education Cluster* major federal program. Compliance with this requirement is necessary, in our opinion, for the Educational Service Center to comply with requirements applicable to this program.

Qualified Opinion on Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on *Special Education Cluster* paragraph, the Auglaize County Educational Service Center complied, in all material respects with the requirements referred to above that could directly and materially affect its *Special Education Cluster* major federal program for the fiscal year ended June 30, 2015.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2015-003 to be a material weakness.

The Educational Service Center's response to our internal control over compliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the Educational Service Center's response and, accordingly, we express no opinion on it.

Auglaize County Educational Service Center
Auglaize County
Independent Auditor's Report on Compliance with Requirements
Applicable to the Major Federal Program and on Internal Control Over
Compliance Required by OMB Circular A-133
Page 3

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

Dave Yost
Auditor of State
Columbus, Ohio

July 14, 2016

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: <ul style="list-style-type: none"> • Special Education_ Grants to States: CFDA #84.027 • Special Education_ Preschool Grants: CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2015-001

Material Weakness – Accuracy of Financial Reporting

The Educational Service Center should have procedures and controls in place to help prevent errors in the financial statements. The following errors were identified on the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds:

- General Fund receipts in the amount of \$403,651, for services provided were classified as other local revenues instead of contract services; and
- Federal Grant receipts in the amount of \$117,205 recorded in the Non-major Governmental Funds were classified as Intergovernmental – State instead of Intergovernmental – Federal.

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 Educational Service Center should perform a review to help ensure accuracy of the financial statements. Also, the Educational 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 \$403,651 that was and has always been classified as local revenue. The money is received from the MRDD, as part of an agreement. We do not contract with the MRDD for services. We as the ESC provide the services to our Districts, and use this money to help offset the costs that our districts pay. The \$117,205 receipt was for the account 599 State Professional Development Grant was classified as an Intergovernmental – State grant. This grant has been classified like this for the past 8 years, which was prior to me being hired. I just continued it with the same coding as previous years.

FINDING NUMBER 2015-002

Noncompliance

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 school districts, including educational service centers, to file annual financial reports which are prepared using generally accepted accounting principles. The Educational 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 Educational Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

OFFICIALS' RESPONSE: We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2015-003
CFDA Title and Number	Special Education_Grants to States: CFDA #84.027 Special Education_Preschool Grants: CFDA #84.173
Federal Award Number / Year	2015
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Cash Management - Noncompliance Citation / Material Weakness

34 CFR § 80.20(b)(7) states procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub-grantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

Grantees must monitor cash drawdowns by their sub-grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

34 CFR § 80.21(b) states methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or sub-grantee, in accordance with Treasury regulations at 31 CFR part 205.

Ohio Department of Education (ODE) CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 CFR 80.21).

The Educational Service Center did not spend four out of fifteen requests within a month of receipt. The excess cash on hand ranged from \$1,294 to \$40,453. Failure to spend the cash advances within a timely manner could result in the Ohio Department of Education (ODE) denying any further requests for funding, and also could result in excess interest being earned on the money, which is required to be remitted back to the ODE.

Controls and procedures should be implemented to help ensure cash advances are spent within the required time period.

OFFICIALS' RESPONSE: I had requested money in advance for materials and professional development, and then the materials weren't available and the meetings/conferences were not attended. It makes it difficult when you plan, and then they are cancelled at the last minute.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	Ohio Rev. Code § 117.38 & Ohio Admin. Code § 117-2-03(B) – failed to prepare financial statements in accordance with generally accepted accounting principles (GAAP)	No	Repeated as Finding 2015-002