



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Educational Service Center
Putnam County
124 Putnam Parkway
Ottawa, Ohio 45875-8657

To the Governing Board:

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *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 ESC'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 ESC's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Putnam County, Ohio, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, during the year ended June 30, 2015, the ESC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

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

The schedules of revenues, expenditures and changes in fund balance – budget and actual present additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2016, on our consideration of the ESC'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 ESC's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 10, 2016

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

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

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net position of governmental activities decreased \$31,443 which represents a .69% decrease from 2014 as restated in Note 3.A.
- General revenues accounted for \$300,540 in revenue or 6.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,571,461 or 93.83% of total revenues of \$4,872,001.
- The ESC had \$4,903,444 in expenses related to governmental activities; \$4,571,461 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$300,540 were not adequate to provide for these programs.
- The ESC's major governmental funds are the General Fund and the IDEA Part B Grants Fund. The General Fund had \$3,285,640 in revenues and \$3,334,723 in expenditures. During fiscal year 2015, the General Fund's fund balance decreased \$49,083 from \$822,268 to \$773,185.
- The IDEA Part B Grants Fund had \$1,013,596 in revenues and \$1,006,698 in expenditures. During fiscal year 2015, the IDEA Part B grants fund's fund balance increased \$6,898 from \$3,322 to a balance of \$10,220.

Using these Basic Financial Statements

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

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

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net position and changes in that position. This change in net position is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC 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 ESC's facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operations and maintenance and extracurricular activities.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the General Fund and the IDEA Part B Grants Fund.

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities and Changes in Fiduciary Net Position. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

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

Notes to the 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.

Supplementary Information

The ESC has presented budgetary comparison schedule for the General Fund and the IDEA Part B Grants Fund as supplementary information.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the ESC's net pension liability.

The ESC as a Whole

The table below provides a summary of the ESC's net position for 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities <u>2015</u>	Restated Governmental Activities <u>2014</u>
<u>Assets</u>		
Current and other assets	\$ 1,632,198	\$ 1,722,648
Capital assets, net	<u>3,593,289</u>	<u>3,695,640</u>
Total assets	<u>5,225,487</u>	<u>5,418,288</u>
<u>Deferred Outflows of Resources</u>		
Pension	<u>533,548</u>	<u>462,578</u>
Total assets and deferred outflows of resources	<u>5,759,035</u>	<u>5,880,866</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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	Net Position	
<u>Liabilities</u>		
Current liabilities	592,215	611,191
Long-term liabilities:		
Due within one year	166,123	126,543
Due in more than one year:		
Net pension liability	7,479,011	8,873,851
Other amounts	757,493	808,046
Total liabilities	8,994,842	10,419,631
<u>Deferred Inflows of Resources</u>		
Pensions	1,334,401	
<u>Net Position</u>		
Net investment in capital assets	3,104,265	3,170,556
Restricted	213,123	305,584
Unrestricted (restated)	(7,887,596)	(8,014,905)
Total net position	\$ (4,570,208)	\$ (4,538,765)

During 2015, the ESC adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions— an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ESC's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the ESC's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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ESC is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the ESC's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the ESC is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$3,872,508 to (\$4,538,765).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the ESC's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$4,570,208.

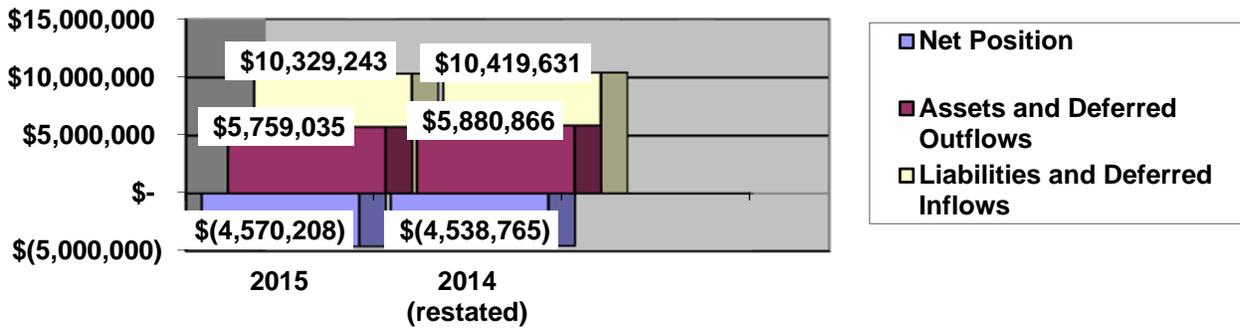
At year-end, capital assets represented 68.76% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2015, was \$3,104,265. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net position, \$213,123, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of (\$7,887,596) may be used to meet the ESC's ongoing obligations to the students and creditors.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities



The table below shows the change in net position for fiscal year 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

	Change in Net Position	
	Governmental Activities 2015	Restated Governmental Activities 2014
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,985,926	\$ 2,689,967
Operating grants and contributions	1,585,535	1,704,354
General revenues:		
Grants and entitlements	189,525	363,372
Investment earnings	3,211	2,459
Other	107,804	142,951
Total Revenues	4,872,001	4,903,103

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 103,458	\$ 182,368
Special	1,641,213	1,613,106
Vocational	16,169	
Adult/continuing	32,103	59,395
Support services:		
Pupil	743,919	869,170
Instructional staff	575,159	633,417
Board of education	32,220	31,639
Administration	191,989	205,348
Fiscal	297,759	350,238
Business	1,480	2,784
Operations and maintenance	183,168	161,534
Pupil transportation	36,851	45,457
Central	8,052	14,439
Operation of non-instructional services:		
Other non-instructional services	10,753	19,114
Intergovernmental pass-through	1,006,698	1,030,254
Interest and fiscal charges	<u>22,453</u>	<u>23,847</u>
Total expenses	<u>4,903,444</u>	<u>5,242,110</u>
Change in net position	(31,443)	(339,007)
Net position at beginning of year (restated)	<u>(4,538,765)</u>	<u>N/A</u>
Net position at end of year	<u>\$ (4,570,208)</u>	<u>\$ (4,538,765)</u>

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$462,578 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$332,558.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Total 2015 program expenses under GASB 68	\$ 4,903,444
Pension expense under GASB 68	(332,558)
2015 contractually required contributions	<u>463,967</u>
Adjusted 2015 program expenses	5,034,853
Total 2014 program expenses under GASB 27	<u>5,242,110</u>
Decrease in program expenses not related to pension	<u>\$ (207,257)</u>

Net position of the ESC's governmental activities decreased \$31,443. Total governmental expenses of \$4,903,444 were offset by program revenues of \$4,571,461 and general revenues of \$300,540. Program revenues supported 93.23% of the total governmental expenses.

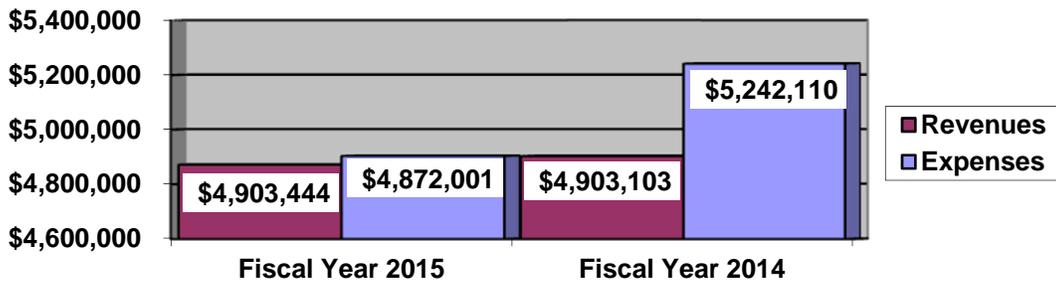
The primary sources of revenue for governmental activities are derived from charges for services and sales. These revenue sources represent 61.29% of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$2,070,597 or 42.23% of total governmental expenses for fiscal year 2015.

Operating grants and contributions decreased due the ESC receiving less monies related to grants such as, Drug Free School Grants and Miscellaneous Federal Grants, during fiscal year 2015 compared to fiscal year 2014.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2015 and 2014.

Governmental Activities - Revenues and Expenses



The Statement of Activities 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, investment earnings, and miscellaneous revenues.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities				
	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
Program expenses				
Instruction:				
Regular	\$ 103,458	\$ (313,084)	\$ 182,368	\$ (201,119)
Special	1,641,213	(1,058,903)	1,613,106	(859,238)
Vocational	16,169	16,169		
Adult/continuing	32,103	(321)	59,395	17,143
Support services:				
Pupil	743,919	682,323	869,170	790,845
Instructional staff	575,159	457,583	633,417	534,295
Board of education	32,220	32,220	31,639	31,639
Administration	191,989	186,930	205,348	182,822
Fiscal	297,759	188,658	350,238	235,630
Business	1,480	1,480	2,784	2,784
Operations and maintenance	183,168	103,625	161,534	76,822
Pupil transportation	36,851	18,557	45,457	6,757
Central	8,052	398	14,439	4,443
Operation of non-instructional services:				
Other non-instructional services	10,753	3,167	19,114	3,462
Extracurricular activities		(2,374)		
Intergovernmental pass-through	1,006,698	(6,898)	1,030,254	(2,343)
Interest and fiscal charges	22,453	22,453	23,847	23,847
Total expenses	<u>\$ 4,903,444</u>	<u>\$ 331,983</u>	<u>\$ 5,242,110</u>	<u>\$ 847,789</u>

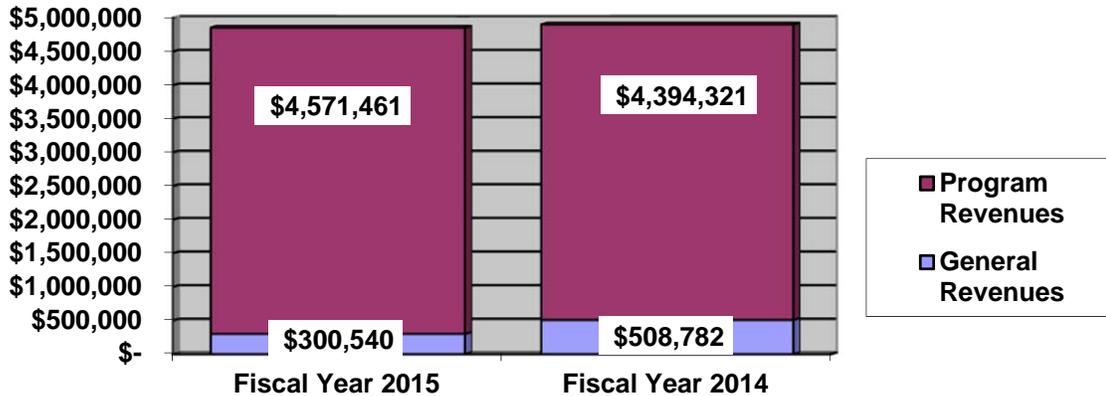
The dependence upon program revenues for governmental activities is apparent; program revenue support is 93.23%. The ESC's contract services and charges for services, as a whole, are by far the primary support for ESC's students.

The graph below presents the ESC's governmental activities revenue for fiscal year 2015 and 2014.

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Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$858,676, which is less than last year's total of \$1,008,161. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	<u>Fund Balance June 30, 2015</u>	<u>Fund Balance June 30, 2014</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 773,185	\$ 822,268	\$ (49,083)	(5.97) %
IDEA Part B Grant	10,220	3,322	6,898	207.65 %
Other Governmental	<u>75,271</u>	<u>182,571</u>	<u>(107,300)</u>	(58.77) %
Total	<u>\$ 858,676</u>	<u>\$ 1,008,161</u>	<u>\$ (149,485)</u>	(14.83) %

General Fund

The ESC's General Fund balance decreased by \$49,083. The decrease in fund balance can be attributed to an increase in expenditures related to instruction and due to a decrease in revenues related to intergovernmental revenues. Instructional expenses increased during the current year due to an increase in expenses related to salaries and benefits and operations and maintenance. Expenditures exceeded revenues for fiscal year 2015 by \$49,083. Revenues related to contract services increased due to an increase in services provided to other entities. Intergovernmental revenues decreased due to a decrease in revenues received from the state of Ohio. Revenues related to tuition increased due to an increase in revenues received from local schools.

The table that follows assists in illustrating the financial activities and fund balance of the General Fund.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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	<u>2015</u> <u>Amount</u>	<u>2014</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 2,820,990	\$ 2,519,738	\$ 301,252	11.96 %
Contract Services	93,863	89,005	4,858	5.46 %
Earnings on investments	2,385	2,537	(152)	(5.99) %
Intergovernmental	189,525	363,372	(173,847)	(47.84) %
Other revenues	<u>178,877</u>	<u>224,175</u>	<u>(45,298)</u>	<u>(20.21) %</u>
 Total	 <u>\$ 3,285,640</u>	 <u>\$ 3,198,827</u>	 <u>\$ 86,813</u>	 2.71 %
<u>Expenditures</u>				
Instruction	\$ 1,480,651	\$ 1,436,296	\$ 44,355	3.09 %
Support services	1,793,913	1,710,026	83,887	4.91 %
Non-instructional services	1,646	1,213	433	35.70 %
Debt service	<u>58,513</u>	<u>58,513</u>	<u> </u>	<u> </u>
 Total	 <u>\$ 3,334,723</u>	 <u>\$ 3,206,048</u>	 <u>\$ 128,675</u>	 4.01 %

IDEA Part B Grants Fund

The IDEA Part B Grants Fund had \$1,013,596 in revenues and \$1,006,698 in expenditures. During fiscal year 2015, the IDEA Part B Grants Fund's fund balance increased \$6,898 from \$3,322 to a balance of \$10,220.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the ESC had \$3,593,289 invested in land, buildings and improvements, furniture and equipment, and vehicles, net of accumulated depreciation. This entire amount is reported in governmental activities. The following table shows fiscal year 2015 balances compared to 2014:

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

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 156,000	\$ 156,000
Building and improvements	3,272,727	3,309,091
Furniture and equipment	<u>164,562</u>	<u>230,549</u>
 Total	 <u>\$ 3,593,289</u>	 <u>\$ 3,695,640</u>

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

The overall decrease in capital assets is due to depreciation expense of \$119,556 exceeding capital outlays of \$17,205 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2015, the ESC had \$489,024 in capital lease obligations outstanding. Of this total, \$37,645 is due within one year and \$451,379 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>
Capital lease obligations	<u>\$ 489,024</u>	<u>\$ 525,084</u>

See Note 9 to the basic financial statements for additional information on the ESC's debt administration.

Current Financial Related Activities

Overall, the Educational Service Center is strong financially. As the preceding information shows, the ESC relies heavily upon grants, special education billings from the local districts, and state foundation payments. State funding is predicted to decline for the next several years impacting the ESC and its local districts.

The challenge for the ESC's Management is to continue to provide the resources necessary to meet student needs and be able to stay within our budget for the year. The ESC has anticipated a lower than normal increase in funding due to declining enrollment in the county. This not only impacts the ESC's income, but that of our locals.

Another challenge facing the ESC is the maintenance and renting of a new facility that houses our offices, as well as, a higher education facility with six flexible classrooms. The cost of the facility is around \$3.3 million, with our investment being \$1 million over a 25 year lease purchase agreement with the Village of Ottawa. A grant from the Economic Development Administration and the Village will be contributing the remaining portion of the funding.

The last challenge facing the ESC is the continued talk of regionalization of services for education in Ohio. To date the outlook of this is looking more favorable to ESCs and we do not see any major changes to our operations in the next several years.

The ESC's system of budgeting and internal controls is well regarded. All of the ESC's financial abilities will be needed to meet the financial challenges of the future.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Michael Siebeneck, Treasurer, Putnam County ESC, 124 Putnam Parkway, Ottawa, Ohio 45875-8657.

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$1,320,771
Receivables:	
Accounts	25,281
Accrued interest	1,369
Intergovernmental	282,227
Loan Receivable	2,550
Capital assets:	
Land	156,000
Depreciable capital assets, net	3,437,289
Capital assets, net	<u>3,593,289</u>
 Total assets	 <u>5,225,487</u>
Deferred outflows of resources:	
Pension - STRS	382,657
Pension - SERS	150,891
Total deferred outflows of resources	<u>533,548</u>
 Total assets and deferred outflows of resources	 <u><u>\$5,759,035</u></u>
Liabilities:	
Accrued wages and benefits payable	\$500,532
Intergovernmental payable	13,890
Pension obligation payable	76,108
Accrued interest payable	1,685
Long-term liabilities:	
Due within one year	166,123
Due in more than one year:	
Net pension liability	7,479,011
Other amounts due in more than one year	757,493
Total liabilities	<u>8,994,842</u>
Deferred inflows of resources:	
Pension - STRS	982,322
Pension - SERS	352,079
Total deferred inflows of resources	<u>1,334,401</u>
 Total liabilities and deferred inflows of resources	 <u>10,329,243</u>
Net position:	
Net investment in capital assets	3,104,265
Restricted for:	
Locally funded programs	2,425
State funded programs	26,417
Federally funded programs	184,281
Unrestricted	(7,887,596)
Total net position	<u><u>(\$4,570,208)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$103,458	\$365,288	\$51,254	\$313,084
Special	1,641,213	2,455,702	244,414	1,058,903
Vocational	16,169			(16,169)
Adult/continuing	32,103		32,424	321
Support services:				
Pupil	743,919		61,596	(682,323)
Instructional staff	575,159		117,576	(457,583)
Board of education	32,220			(32,220)
Administration	191,989		5,059	(186,930)
Fiscal	297,759	93,863	15,238	(188,658)
Business	1,480			(1,480)
Operations and maintenance	183,168	68,699	10,844	(103,625)
Pupil transportation	36,851		18,294	(18,557)
Central	8,052		7,654	(398)
Operation of non-instructional services:				
Other non-instructional services	10,753		7,586	(3,167)
Extracurricular activities		2,374		2,374
Intergovernmental pass-through	1,006,698		1,013,596	6,898
Interest and fiscal charges	22,453			(22,453)
Total governmental activities	\$4,903,444	\$2,985,926	\$1,585,535	(331,983)
General Revenues:				
Grants and entitlements not restricted to specific programs				189,525
Investment earnings				3,211
Miscellaneous				107,804
Total general revenues				300,540
Change in net position				(31,443)
Restated net position at beginning of year				(4,538,765)
Net position at end of year				(\$4,570,208)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General	IDEA Part B Grants	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$1,299,255		\$21,516	\$1,320,771
Receivables:				
Accounts	25,281			25,281
Accrued interest	1,369			1,369
Interfund loans	53,502			53,502
Intergovernmental		\$28,347	253,880	282,227
Loan receivable	2,550			2,550
Total assets	<u>\$1,381,957</u>	<u>\$28,347</u>	<u>\$275,396</u>	<u>\$1,685,700</u>
Liabilities:				
Accrued wages and benefits payable	\$491,819		\$8,713	\$500,532
Compensated absences payable	29,592			29,592
Intergovernmental payable	12,182	\$1,218	490	13,890
Pension obligation payable	73,810	362	1,936	76,108
Interfund loans payable		16,547	36,955	53,502
Total liabilities	<u>607,403</u>	<u>18,127</u>	<u>48,094</u>	<u>673,624</u>
Deferred inflows of resources:				
Intergovernmental revenue not available			152,031	152,031
Accrued interest not available	1,369			1,369
Total deferred inflows of resources	<u>1,369</u>		<u>152,031</u>	<u>153,400</u>
Total liabilities and deferred inflows of resources	<u>608,772</u>	<u>18,127</u>	<u>200,125</u>	<u>827,024</u>
Fund balances:				
Restricted:				
Adult education			2,270	2,270
Migrant program			100,700	100,700
Special education		10,220	5,568	15,788
Other purposes			3,107	3,107
Assigned:				
Student instruction	2,412			2,412
Student and staff support	10,840			10,840
Unassigned (deficit)	759,933		(36,374)	723,559
Total fund balances	<u>773,185</u>	<u>10,220</u>	<u>75,271</u>	<u>858,676</u>
Total liabilities, deferred inflows and fund balances	<u>\$1,381,957</u>	<u>\$28,347</u>	<u>\$275,396</u>	<u>\$1,685,700</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

Total governmental fund balances		\$858,676
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,593,289
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Accrued interest receivable	\$1,369	
Intergovernmental receivable	152,031	
Total	152,031	153,400
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligations	(489,024)	
Compensated absences	(405,000)	
Accrued interest payable	(1,685)	
Total	(895,709)	(895,709)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.		
Deferred outflows - pension	533,548	
Deferred inflows - pension	(1,334,401)	
Net pension liability	(7,479,011)	
Total	(8,279,864)	(8,279,864)
Net position of governmental activities		(\$4,570,208)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General	IDEA Part B Grants	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Tuition	\$2,820,990			\$2,820,990
Earnings on investments	2,385			2,385
Rental income	68,699			68,699
Contributions and donations	2,374			2,374
Contract services	93,863			93,863
Other local revenues	107,804			107,804
Intergovernmental - state	189,525		\$259,086	448,611
Intergovernmental - federal		\$1,013,596	265,260	1,278,856
Total revenues	3,285,640	1,013,596	524,346	4,823,582
Expenditures:				
Current:				
Instruction:				
Regular	47,645		58,648	106,293
Special	1,416,837		281,695	1,698,532
Vocational	16,169			16,169
Adult/continuing			32,103	32,103
Support services:				
Pupil	749,706		64,378	814,084
Instructional staff	408,920		108,450	517,370
Board of education	32,278			32,278
Administration	190,941		6,997	197,938
Fiscal	272,383		21,195	293,578
Business	1,480			1,480
Operations and maintenance	126,604		15,000	141,604
Pupil transportation	11,601		25,304	36,905
Central			8,192	8,192
Operation of non-instructional services:				
Other non-instructional services	1,646		9,684	11,330
Intergovernmental pass-through		1,006,698		1,006,698
Debt service:				
Principal retirement	36,060			36,060
Interest and fiscal charges	22,453			22,453
Total expenditures	3,334,723	1,006,698	631,646	4,973,067
Net change in fund balances	(49,083)	6,898	(107,300)	(149,485)
Fund balances at beginning of year	822,268	3,322	182,571	1,008,161
Fund balances at end of year	\$773,185	\$10,220	\$75,271	\$858,676

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds (\$149,485)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the current period.

Capital asset additions	\$17,205	
Current year depreciation	(119,556)	
Total	(102,351)	(102,351)

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

Accrued interest	826	
Intergovernmental	47,593	
Total	48,419	48,419

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 36,060

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 4,505

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 463,967

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities (332,558)

Change in net position of governmental activities **(\$31,443)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$247,569
Receivables:	
Intergovernmental	<u>31,010</u>
Total assets	<u><u>\$278,579</u></u>
Liabilities:	
Accrued wages and benefits	\$4,782
Pension obligation payable	2,375
Loan payable	2,550
Intergovernmental payable	240
Due to other governments	<u>268,632</u>
Total liabilities	<u><u>\$278,579</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Gifts and contributions	<u>\$500</u>
Deductions:	
Scholarships awarded	<u>\$500</u>
Change in Net Position	
Net Position Beginning of Year	<u> </u>
Net Position End of Year	<u> </u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Putnam County Educational Service Center (the ESC) is the successor to the former Putnam County Board of Education. County Boards of Education were formed in Ohio as a result of the passage of Senate Bill 9 in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Putnam County Board of Education formally adopted these changes and thus became the "Governing Board of the Putnam County Educational Service Center".

The Governing Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policies and procedures, and approves all financial activities. The ESC is staffed by 49 certified employees (including administrative) and 44 classified employees to provide services to approximately 5,821 students in 9 school districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC's significant accounting policies are described below.

A. Reporting Entity

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

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative

The ESC is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert counties, and the cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts.

NOACSC is governed by a Board of Directors. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio, 45804.

Millstream Career Cooperative

The Millstream Career Cooperative (Millstream) is a distinct political subdivision of the State of Ohio established under Section 3313.90. Millstream operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Putnam and Hancock Counties Educational Service Centers serve in an ex-officio capacity for all meetings. To obtain financial information write to Michael Barnhart, Treasurer, Findlay City Schools, at 1219 West Main Cross, Suite 101, Findlay, Ohio, 45840.

The ESC also participates in a group purchasing pool for insurance, described in Note 10.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets and deferred outflows of resources are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the ESC's major governmental funds:

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

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

IDEA Part B Grants Fund - A special revenue fund used to account for and report grant monies restricted to expenditures for providing an appropriate public education to all children with disabilities.

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

PROPRIETARY FUNDS

Proprietary funds are used to account for proprietary activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency fund accounts for monies held for other governmental entities.

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the ESC are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

outflows and current liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition, interest and intergovernmental grants.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the ESC, deferred outflows of resources have been reported for the following two items related the ESC's net pension liability: (1) the difference

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

between expected and actual experience of the pension systems, and (2) the ESC's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The ESC also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Investments

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

During fiscal year 2015, investments were limited to certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposits, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the General Fund. Interest revenue credited to the General Fund during fiscal year 2015 amounted to \$2,385, which includes \$313 assigned from other funds.

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

An analysis of the ESC's investment account at year end is provided in Note 4.

F. Capital Assets

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General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2015, the ESC maintained its capitalization threshold at \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	20 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	5 - 10 years

G. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental activities column on the statement of net position. As of June 30, 2015, the ESC had \$53,502 of interfund receivables in the General Fund and payable from major and nonmajor governmental funds.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the General Fund to cover negative cash balances in Agency Funds are classified as "loans receivable/payable." As of June 30, 2015, the ESC had \$2,550 of loan receivables in the General Fund and payable from the Agency Fund.

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as

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cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2015, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2015 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

J. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt

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covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

K. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The ESC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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L. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

M. Interfund Activity

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

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the ESC 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. 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 ESC.

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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 affected the ESC's pension plan disclosures, as presented in Note 11 to the financial statements, and added required supplementary information.

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.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	<u>Governmental Activities</u>
Net position as previously reported	\$ 3,872,508
Deferred outflows - payments subsequent to measurement date	462,578
Net pension liability	<u>(8,873,851)</u>
Restated net position (deficit) at July 1, 2014	<u>\$ (4,538,765)</u>

Other than employer contributions subsequent to the measurement date, the ESC made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

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

<u>Nonmajor funds</u>	<u>Deficit</u>
Public school preschool	\$ 9,960
Alternative schools	78
Miscellaneous State grants	26,336

The General Fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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(Continued)**

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. 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 items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool.

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

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

A. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all ESC deposits was \$1,568,340. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$732,811 of the ESC's bank balance of \$1,656,023 was covered by the FDIC, while \$923,212 was exposed to custodial risk as discussed below.

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

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2015:

<u>Cash and investments per note disclosure:</u>	
Carrying amount of deposits	<u>\$ 1,568,340</u>
<u>Cash and investments per statement of net position:</u>	
Governmental activities	\$ 1,320,771
Agency funds	<u>247,569</u>
Total	<u>\$ 1,568,340</u>

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NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2015, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	IDEA Part-B grants	\$ 16,547
General Fund	Nonmajor governmental funds	<u>36,955</u>
Total		<u>\$ 53,502</u>

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were requested but were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B. Loans between governmental funds and agency funds to cover negative cash balances in the agency funds are reported a "loans receivable/payable" on the financial statements. The District had the following loans outstanding at fiscal year-end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General Fund	Agency	\$ 2,550

This loan is expected to be repaid in the subsequent year as resources become available in the Agency Fund.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2015 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net position is as follows:

Governmental activities:	
Accounts	\$ 25,281
Intergovernmental	282,227
Accrued interest	<u>1,369</u>
Total receivables	<u>\$ 308,877</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

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NOTE 7 - CAPITAL ASSETS

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

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 156,000			\$ 156,000
<i>Total capital assets, not being depreciated</i>	156,000			156,000
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	3,600,000			3,600,000
Furniture and equipment	812,073	\$ 17,205	\$ (47,073)	782,205
Vehicles	22,087			22,087
<i>Total capital assets, being depreciated</i>	4,434,160	17,205	(47,073)	4,404,292
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(290,909)	(36,364)		(327,273)
Furniture and equipment	(581,524)	(83,192)	47,073	(617,643)
Vehicles	(22,087)			(22,087)
<i>Total accumulated depreciation</i>	(894,520)	(119,556)	\$ 47,073	(967,003)
Governmental activities capital assets, net	\$ 3,695,640	\$ (102,351)		\$ 3,593,289

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 1,987
<u>Support services:</u>	
Pupil	691
Instructional staff	61,250
Administration	290
Fiscal	731
Operations and maintenance	54,607
Total depreciation expense	\$ 119,556

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the ESC entered into a lease agreement for a building. The terms of this lease agreement provides an option to purchase the asset.

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Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Governmental capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum payments as of the dates of their inception. A corresponding liability has been recorded and is presented as a component of long-term liabilities on the statement of net position. During fiscal year 2015, principal payments equaled \$36,060 and interest payments equaled \$22,453. These amounts are reflected as debt service expenditures in the fund financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2015:

Fiscal Year Ending June 30,	Payments
2016	\$ 58,513
2017	58,513
2018	58,513
2019	58,513
2020	58,513
2021 - 2025	292,565
2026	29,256
Total future minimum lease payments	614,386
Less: amount representing interest	(125,362)
Present value of future minimum lease payments	\$ 489,024

NOTE 9 - LONG-TERM OBLIGATIONS

Changes in the ESC's governmental activities long-term obligations during the year were as follows. The long-term obligations at June 30, 2014 have been restated as described in Note 3.A.

	Restated Balance <u>07/01/14</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>06/30/15</u>	Amount Due Within <u>One Year</u>
<u>Governmental activities:</u>					
Capital lease obligation	\$ 525,084		\$ (36,060)	\$ 489,024	\$ 37,645
Net pension liability	8,873,851		(1,394,840)	7,479,011	
Compensated absences	409,505	\$ 115,570	(90,483)	434,592	128,478
Total long-term obligations	\$ 9,808,440	\$ 115,570	\$(1,521,383)	\$8,402,627	\$ 166,123

Compensated absences will be paid out of the fund from which the employee is paid, which is primarily the General Fund. See Note 8 regarding the capital lease obligation. See Note 11 for detail on the ESC's net pension liability.

NOTE 10 - RISK MANAGEMENT

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(Continued)**

A. Risk Pool Membership

The ESC is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 102 members. SORSA is a joint self-insurance pool. SORSA assumes the risk of loss up to the limits of the ESC's policy. SORSA covers the following risks:

- General Liability
- Educators Legal Liability
- Automobile
- Property
- Crime
- Equipment Breakdown

The ESC contributes to the funding, operating and maintaining of the SORSA joint self insurance pool. The ESC's contributions cover deductible losses, loss fund contributions, insurance costs, and administrative costs.

The ESC paid \$9,648 in premiums to the pool for fiscal year 2015 coverage. Settled claims have not exceeded this coverage in any of the past three fiscal years.

SORSA financial statements are available by contacting SORSA at:

Schools of Ohio Risk Sharing Authority, Inc.
OSBA Building
8050 North High Street
Columbus, Ohio, 43235-6483

B. Employee Group Health, Dental and Prescription Drugs

The ESC participates as a member of the Putnam County School Insurance Group, a public entity risk pool, administered by Huntington Trust. The ESC converted its fully-insured medical insurance program to partial self insurance through participation in this public entity risk pool. Medical Mutual of Ohio provides claims review and processing. The ESC maintains stop-loss coverage for its medical insurance program. Aggregate stop loss is maintained for expected claims.

C. Workers' Compensation

For fiscal year 2015, the ESC participated in the Ohio School Boards Association/Ohio Association of School Business Officials Compmangement Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either

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receive money from or be required to contribute to the “equity pooling fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan’s selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the Plan.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension obligation payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – ESC non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement,

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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.

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 ESC 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 ESC's contractually required contribution to SERS was \$132,428 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – ESC licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements,

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(Continued)**

required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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

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

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

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

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

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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 ESC 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 ESC's contractually required contribution to STRS was \$331,539 for fiscal year 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,169,272	\$ 5,309,739	\$ 7,479,011
Proportion of the Net Pension Liability	0.042863%	0.0218297%	
Pension Expense	\$ 126,590	\$ 205,968	\$ 332,558

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 18,463	\$ 51,118	\$ 69,581
ESC contributions subsequent to the measurement date	<u>132,428</u>	<u>331,539</u>	<u>463,967</u>
Total Deferred Outflows of Resources	<u>\$ 150,891</u>	<u>\$ 382,657</u>	<u>\$ 533,548</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 352,079</u>	<u>\$ 982,322</u>	<u>\$ 1,334,401</u>
Total Deferred Inflows of Resources	<u>\$ 352,079</u>	<u>\$ 982,322</u>	<u>\$ 1,334,401</u>

\$463,967 reported as deferred outflows of resources related to pension resulting from ESC

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(Continued)**

contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	\$ (83,404)	\$ (232,801)	\$ (316,205)
2017	(83,404)	(232,801)	(316,205)
2018	(83,404)	(232,801)	(316,205)
2019	(83,404)	(232,801)	(316,205)
Total	\$ (333,616)	\$ (931,204)	\$(1,264,820)

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:

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(Continued)**

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

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

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

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

<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	15.00	7.50
Total	<u>100.00 %</u>	

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

Sensitivity of the ESC'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

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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	\$ 3,094,907	\$ 2,169,272	\$ 1,390,733

Actuarial Assumptions - STRS

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

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

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

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

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

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(Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</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' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the ESC'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 ESC'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	\$ 7,601,470	\$ 5,309,739	\$ 3,371,705

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The ESC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the ESC's surcharge obligation was \$17,663.

The ESC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$26,588, \$19,534, and \$21,361, respectively. For fiscal year 2015, 100 percent has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30,

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(Continued)**

2015, 2014, and 2013 were \$0, \$21,762, and \$23,892 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

NOTE 14 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 13,252
IDEA Part-B grants	5,927
Other governmental	<u>162,650</u>
Total	<u>\$ 181,829</u>

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$2,618,600	\$2,671,988	\$2,814,489	\$142,501
Earnings on investments	2,500	2,264	2,385	121
Rental income	78,000	65,221	68,699	3,478
Contributions and donations		2,254	2,374	120
Contract services	183,126	73,171	93,863	20,692
Other local revenues	18,100	105,499	94,336	(11,163)
Intergovernmental - state	200,000	179,929	189,525	9,596
Total revenues	<u>3,100,326</u>	<u>3,100,326</u>	<u>3,265,671</u>	<u>165,345</u>
Expenditures:				
Current:				
Instruction:				
Regular	50,259	50,259	48,486	1,773
Special	1,456,803	1,456,803	1,405,427	51,376
Support services:				
Pupil	785,811	785,811	758,099	27,712
Instructional staff	438,850	438,850	423,374	15,476
Board of education	33,491	33,491	32,310	1,181
Administration	198,482	198,482	191,482	7,000
Fiscal	282,991	282,991	273,011	9,980
Operations and maintenance	196,286	196,286	189,364	6,922
Pupil transportation	12,023	12,023	11,599	424
Operation of non-instructional services:				
Other non-instructional services	1,706	1,706	1,646	60
Total expenditures	<u>3,456,702</u>	<u>3,456,702</u>	<u>3,334,798</u>	<u>121,904</u>
Excess of expenditures over revenues	<u>(356,376)</u>	<u>(356,376)</u>	<u>(69,127)</u>	<u>287,249</u>
Other financing sources (uses):				
Transfers in	100	100		(100)
Transfers (out)	(1,324)	(1,324)		1,324
Advances in			48,760	48,760
Advances (out)			(56,052)	(56,052)
Total other financing sources (uses)	<u>(1,224)</u>	<u>(1,224)</u>	<u>(7,292)</u>	<u>(6,068)</u>
Net change in fund balance	(357,600)	(357,600)	(76,419)	281,181
Fund balance at beginning of year	1,303,340	1,303,340	1,303,340	
Prior year encumbrances appropriated	58,734	58,734	58,734	
Fund balance at end of year	<u>\$1,004,474</u>	<u>\$1,004,474</u>	<u>\$1,285,655</u>	<u>\$281,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
IDEA PART B GRANTS 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>		
Revenues:				
Intergovernmental - federal	\$1,034,426	\$1,034,426	\$1,006,080	(\$28,346)
Expenditures:				
Current:				
Instruction:				
Special	527,385	527,385	524,346	3,039
Support Services:				
Pupil	318,840	318,840	317,002	1,838
Instructional staff	120,390	120,390	119,696	694
Fiscal	40,688	40,688	40,453	235
Operation of non-instructional services:				
Other non-instructional services	11,662	11,662	11,595	67
Total expenditures	<u>1,018,965</u>	<u>1,018,965</u>	<u>1,013,092</u>	<u>5,873</u>
Excess of revenues over/(under) expenditures	<u>15,461</u>	<u>15,461</u>	<u>(7,012)</u>	<u>(22,473)</u>
Other financing sources (uses):				
Advances in			16,547	16,547
Advances (out)			(15,462)	(15,462)
Total other financing sources (uses)			<u>1,085</u>	<u>1,085</u>
Net change in fund balance	15,461	15,461	(5,927)	(21,388)
Fund balance at beginning of year	(569)	(569)	(569)	
Prior year encumbrances appropriated	569	569	569	
Fund balance (deficit) at end of year	<u>\$15,461</u>	<u>\$15,461</u>	<u>(\$5,927)</u>	<u>(\$21,388)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - BUDGETARY BASIS OF ACCOUNTING

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

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

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

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The schedules of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the General Fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) To reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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(d) Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the General Fund and major special revenue fund are as follows:

Net Change in Fund Balance

	General Fund	IDEA Part-B Grants Fund
Budget basis	\$ (76,419)	\$ (5,927)
Net adjustment for revenue accruals	19,969	7,516
Net adjustment for expenditure accruals	(13,177)	467
Net adjustment for other sources/uses	7,292	(1,085)
Adjustment for encumbrances	13,252	5,927
GAAP basis	\$ (49,083)	\$ 6,898

Certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the unclaimed monies fund.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE ESC'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO**

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.04286300%	0.04286300%
ESC's proportionate share of the net pension liability	\$ 2,169,272	\$ 2,548,925
ESC's covered-employee payroll	\$ 1,245,505	\$ 938,353
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	271.64%
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.

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.02182970%	0.02182970%
ESC's proportionate share of the net pension liability	\$ 5,309,739	\$ 6,324,926
ESC's covered-employee payroll	\$ 2,230,392	\$ 2,389,154
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	264.73%
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.

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PUTNAM COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF ESC 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	\$ 132,428	\$ 172,627	\$ 129,868	\$ 127,492
Contributions in relation to the contractually required contribution	<u>(132,428)</u>	<u>(172,627)</u>	<u>(129,868)</u>	<u>(127,492)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 1,004,765	\$ 1,245,505	\$ 938,353	\$ 947,896
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>
\$ 125,854	\$ 138,704	\$ 104,122	\$ 101,859	\$ 129,833	\$ 131,737
<u>(125,854)</u>	<u>(138,704)</u>	<u>(104,122)</u>	<u>(101,859)</u>	<u>(129,833)</u>	<u>(131,737)</u>
<u>\$ -</u>					
\$ 1,001,225	\$ 1,024,402	\$ 1,058,150	\$ 1,037,261	\$ 1,215,665	\$ 1,245,151
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF ESC 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	\$ 331,539	\$ 289,951	\$ 310,590	\$ 327,775
Contributions in relation to the contractually required contribution	<u>(331,539)</u>	<u>(289,951)</u>	<u>(310,590)</u>	<u>(327,775)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 2,368,136	\$ 2,230,392	\$ 2,389,154	\$ 2,521,346
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>
\$ 341,454	\$ 351,376	\$ 326,408	\$ 325,755	\$ 338,464	\$ 343,158
<u>(341,454)</u>	<u>(351,376)</u>	<u>(326,408)</u>	<u>(325,755)</u>	<u>(338,464)</u>	<u>(343,158)</u>
<u>\$ -</u>					
\$ 2,626,569	\$ 2,702,892	\$ 2,510,831	\$ 2,505,808	\$ 2,603,569	\$ 2,639,677
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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PUTNAM COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
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.

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**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

FEDERAL GRANTOR <i>Pass through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Twenty-First Century Community Learning Centers	84.287	\$33,516	\$23,109
Adult Education - Basic Grants to States	84.002	38,386	40,177
Migrant Education - State Grant Program	84.011	199,093	232,310
ARRA - Race to the Top	84.395	225	225
<u>Special Education Cluster:</u>			
Special Education - Preschool Grant	84.173	21,240	21,240
Special Education - Grants to States	84.027	888,596	888,596
<i>Passed Through State Education Resource Center</i>			
Special Education - Grants to States	84.027	117,484	118,569
Total Special Education - Grants to States		<u>1,006,080</u>	<u>1,007,165</u>
Total Special Education Cluster		1,027,320	1,028,405
<i>Passed Through Ohio Department of Health</i>			
Help Me Grow	84.181	62,519	66,694
Total United States Department of Education		<u>1,361,059</u>	<u>1,390,920</u>
UNITED STATES DEPARTMENT OF LABOR			
<i>Passed through Putnam County Job and Family Services</i>			
Workforce Investment Act - Youth Activities	17.259	20,942	19,444
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Summer Food Service Program for Children	10.559	8,816	6,948
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety</i>			
State and Community Highway Safety	20.600	12,692	4,689
Total Federal Awards Receipts and Expenditures		<u>\$1,403,509</u>	<u>\$1,422,001</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
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 Educational Service Center, Putnam County, Ohio's (the ESC) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

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

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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

Educational Service Center
Putnam County
124 Putnam Parkway
Ottawa, Ohio 45875-8657

To the Governing Board:

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Putnam County, Ohio (the ESC) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 10, 2016, wherein we noted the ESC adopted Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the ESC'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 ESC'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 ESC'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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2015-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the ESC'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

Dave Yost
Auditor of State

Columbus, Ohio

March 10, 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

Educational Service Center
Putnam County
124 Putnam Parkway
Ottawa, Ohio 45875-8657

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Educational Service Center, Putnam County, Ohio's (the ESC) 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 ESC's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the ESC's major federal program.

Management's Responsibility

The ESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the ESC's compliance for the ESC'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 ESC'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 ESC's major program. However, our audit does not provide a legal determination of the ESC's compliance.

Opinion on the Major Federal Program

In our opinion, the ESC complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The ESC'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 ESC'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 ESC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control 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

March 10, 2016

**EDUCATIONAL SERVICE CENTER
PUTNAM COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education – Grants to States CFDA #84.027 and Special Education – Preschool Grant CFDA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2015-001

Significant Deficiency

Monitoring of Financial Statements

Sound financial reporting is the responsibility of the Treasurer and the Governing Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The financial statements contained errors such as the following:

- Intergovernmental Receivable and Deferred Inflows in Nonmajor Governmental Funds and Operating Grants and Contributions, Intergovernmental Receivable, and Net Position in Governmental Activities were understated by \$16,645.
- Original estimated receipts on the General Fund budgetary statement contained line item classification errors ranging in amounts from \$236 to \$183,126.

The ESC lacked a policy regarding financial review which contributed to these posting errors, occurring without detection. Adjusting entries were posted to the financial statements and the ESC's financial records to correct these errors.

To ensure the ESC's financial statements and notes to the financial statements are complete and accurate, the ESC should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and the Board, to identify and correct errors and omissions.

Officials' Response:

We did not receive a response from the Officials to the finding reported above.

3. FINDINGS FOR FEDERAL AWARDS

None



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PUTNAM COUNTY EDUCATIONAL SERVICE CENTER

PUTNAM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2016**