



Dave Yost • Auditor of State

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Madison-Champaign Educational Service Center
Champaign County
1512 S. U.S. Highway 68, Suite J100
Urbana, Ohio 43078

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Accounting Basis

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2014, the Center has elected to change its financial presentation to a cash basis comparable to the requirements of *Governmental Accounting Standards*. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis, Schedule of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budget Basis – General Fund, or to the schedules of net pension liabilities and pension contributions as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2016, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 15, 2016

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

The management's discussion and analysis of the Madison-Champaign Educational Service Center (the "Center") financial performance provides an overall review of the Center's financial activities for the year ended June 30, 2015. The Center has prepared their financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- The total cash-basis net position of the Center was \$1,761,381.
- General receipts accounted for \$628,114 or 5.63% of total governmental activities receipts. Program specific receipts accounted for \$10,526,525 or 94.37% of total governmental activities receipts.
- The Center had \$10,794,805 in disbursements related to governmental activities; \$10,526,525 of these disbursements were offset by program specific charges for services and grants or contributions. General receipts of \$628,114 were adequate to provide for these programs.
- The Center's major fund is the general fund. The general fund, the Center's largest fund, had total cash receipts and other financing sources of \$10,818,579 in 2015. The cash disbursements and other financing uses of the general fund totaled \$10,472,296. At June 30, 2015, the general fund's cash balance was \$1,734,282.

Using these Basic Financial Statements

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

The statement of net position – cash basis and statement of activities – cash basis provide information about the activities of the Center as a whole, presenting an aggregate view of the Center's cash-basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column. The general fund is the Center's most significant fund.

Reporting the Center as a Whole

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

The statement of net position – cash basis and the statement of activities – cash basis answer the question, "How did the Center perform financially during 2015?" These statements only present the Center's net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This financial reporting framework takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

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

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources, liabilities and deferred inflows of resources, and the effects of these items on revenues and expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, and food service operations.

The Center's statement of net position – cash basis and statement of activities – cash basis can be found on pages 11-12 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

An analysis of the Center's major governmental funds begins on page 8. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Center's most significant funds. The Center's major governmental fund is the general fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at the year-end available for spending in future periods. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be readily spent to finance various Center programs. The Center's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds, whose activity or balances are not large enough to warrant separate reporting, is aggregated and presented in a single column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 15-33 of this report.

Supplementary Information

The Center has presented a budgetary comparison schedule for the general fund as supplementary information on pages 35-36 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Center's net pension liability. This supplementary information can be found on pages 37-44 of this report.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

The Center as a Whole

The table below provides a summary of the Center's net position at June 30, 2015 and June 30, 2014.

Net Position (Cash Basis)		
	Governmental Activities 2015	Governmental Activities 2014
Assets:		
Equity in pooled cash and cash equivalents	\$1,761,381	\$1,401,547
Total assets	1,761,381	\$1,401,547
Net Cash Position:		
Restricted	27,099	\$13,548
Unrestricted	1,734,282	1,387,999
Total net cash position	\$1,761,381	\$1,401,547

Over time, net cash position can serve as a useful indicator of an entity's financial position. At June 30, 2015, total net cash position of the Center was \$1,761,381. A portion of the Center's net position, \$27,099, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$1,734,282 may be used to meet the Center's ongoing obligations to the students and creditors.

The table below shows the net cash position for the Center at June 30, 2015 and June 30, 2014.

Change in Net Cash Position		
	Governmental Activities 2015	Governmental Activities 2014
Receipts:		
Program revenues:		
Charges for services and sales	\$10,020,967	\$9,218,443
Operating grants and contributions	505,558	359,036
General revenues:		
Grants and entitlements	466,534	783,701
Investment earnings	625	451
Miscellaneous	160,955	252,832
Total receipts	11,154,639	10,614,463
Disbursements:		
Instruction:		
Regular	355,467	469,394
Special	4,250,647	3,480,051
Support services:		
Pupil	3,571,094	3,206,564
Instructional staff	528,038	856,194
Board of education	19,053	21,162
Administration	1,297,329	1,683,767
Fiscal	314,505	351,390
Operations and maintenance	126,302	163,853
Pupil transportation	131,114	137,600
Central	142,001	140,568

(Continued)

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

**Change in Net Cash Position
(Continued)**

	Governmental Activities 2015	Governmental Activities 2014
Operation of non-instructional services:		
Food service operations	59,012	61,319
Other non-instructional services	100	100
Extracurricular activities	143	
Total disbursements	<u>10,794,805</u>	<u>10,571,962</u>
Change in net position	359,834	42,501
Net cash position at beginning of year	<u>1,401,547</u>	<u>1,359,046</u>
Net cash position at end of year	<u><u>\$1,761,381</u></u>	<u><u>\$1,401,547</u></u>

Governmental Activities

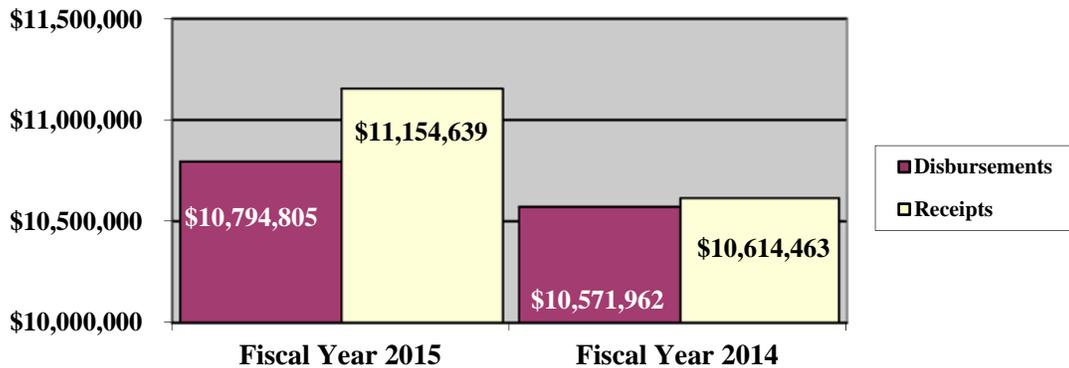
Governmental net cash position was \$1,761,381 at June 30, 2015; total governmental disbursements of \$10,794,805 were offset by program receipts of \$10,526,525 and general receipts of \$628,114. Program receipts supported 97.51% of the total governmental disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 89.84% of total governmental cash receipts.

The largest disbursement of the Center is for special instructional programs. Special instructional disbursements totaled \$4,250,647 or 39.38% of total governmental disbursements for fiscal year 2015.

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

Governmental Activities - Total Receipts vs. Total Disbursements



The statement of activities shows the cost of program services and the charges for services and grants off setting 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, miscellaneous revenues, and investment earnings.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

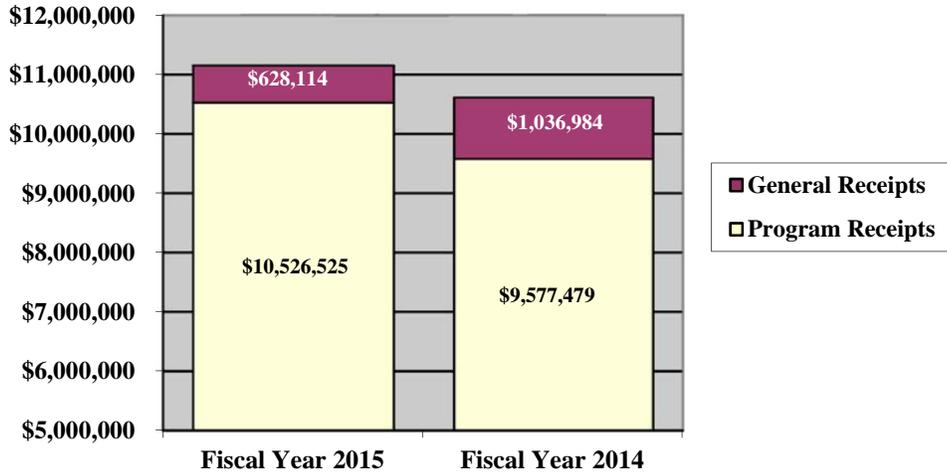
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Disbursements:				
Instruction:				
Regular	\$355,467	(\$56,966)	\$469,394	\$58,856
Special	4,250,647	(113,464)	3,480,051	185,161
Support services:				
Pupil	3,571,094	(66,079)	3,206,564	40,539
Instructional staff	528,038	(11,083)	856,194	24,219
Board of education	19,053	19,053	21,162	21,162
Administration	1,297,329	(27,191)	1,683,767	28,870
Fiscal	314,505	275,006	351,390	328,669
Operations and maintenance	126,302	126,302	163,853	163,853
Pupil transportation	131,114	(5,828)	137,600	7,086
Central	142,001	142,001	140,568	140,568
Operation of non-instructional services:				
Food service operations	59,012	(13,581)	61,319	(4,600)
Other non-instructional services	100	100	100	100
Extracurricular activities	143	10		
Total	\$10,794,805	\$268,280	\$10,571,962	\$994,483

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

Governmental Activities – General and Program Receipts



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

The Center's Funds

At June 30, 2015, the Center's governmental funds reported a combined cash fund balance of \$1,761,381, which is \$359,834 greater than last year's total of \$1,401,547. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2015 and June 30, 2014, for all major and non-major governmental funds.

	Fund Cash Balance June 30, 2015	Fund Cash Balance June 30, 2014	Increase
Major fund:			
General	\$1,734,282	\$1,387,999	\$346,283
Other governmental funds	27,099	13,548	13,551
Total	\$1,761,381	\$1,401,547	\$359,834

General Fund

The general fund, the Center's largest fund, had total receipts and other financing sources of \$10,818,579 in 2015. The disbursements and other financing uses of the general fund, totaled \$10,472,296 in 2015. The general fund's balance was \$1,734,282 at fiscal year-end.

	2015 Amount	2014 Amount	Increase (Decrease)	Percentage Change
Cash receipts:				
Tuition	\$9,950,834	\$9,154,330	\$796,504	8.70 %
Other revenues	163,163	254,720	(91,557)	(35.94) %
Intergovernmental	466,534	783,701	(317,167)	(40.47) %
Total	\$10,580,531	\$10,192,751	\$387,780	3.80 %
Cash disbursements:				
Instruction	\$4,376,138	\$3,627,333	\$748,805	20.64 %
Support services	5,937,587	6,326,712	(389,125)	(6.15) %
Other non-instructional services	100	100	0	0 %
Total	\$10,313,825	\$9,954,145	\$359,680	3.61 %

Intergovernmental receipts decreased by approximately \$317,000 in fiscal year 2015. This is due to cuts to ESC funding made by the State. The Center was forced to charge member districts more during fiscal year 2015 to make up for these cuts. This partially explains the increase in tuition receipts. Tuition receipts also increased because the Center provided more services to districts in fiscal year 2015. The differences in instructional and support services disbursements between fiscal years 2014 and 2015 are due to changes in services provided. Also, the Center provided more services to districts during fiscal year 2015, which resulted in an overall increase in general fund disbursements.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

At June 30, 2015, the Center had no long-term obligations outstanding. The Center had no capital leases obligations and is not permitted to issue debt.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

Current Issues

The Center, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Madison and Champaign counties, as well as State Foundation revenue and grants. The need for additional services from school districts will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2016. However, the future financial stability of the Center is not without concerns.

In fiscal year 2012, every educational service center (ESC) in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State. Near the end of fiscal year 2015, the state legislature once again reduced the per student funding for ESCs by 12% for fiscal year 2016, but then increased funding by 9% for fiscal year 2017. Additional reductions in the State's budget will impact the Center and the districts it serves.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 1512 US 68, Urbana, Ohio 43078.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,761,381
Total assets	1,761,381
 Net cash position:	
Restricted for:	
State funded programs	20
Federally funded programs	6,294
Student activities	1,857
Other purposes	18,928
Unrestricted	1,734,282
Total net cash position	\$1,761,381

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

	Cash Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$355,467	\$296,649	\$115,784	\$56,966
Special	4,250,647	4,173,189	190,922	113,464
Support services:				
Pupil	3,571,094	3,621,009	16,164	66,079
Instructional staff	528,038	539,121		11,083
Board of education	19,053			(19,053)
Administration	1,297,329	1,322,720	1,800	27,191
Fiscal	314,505	1,152	38,347	(275,006)
Operations and maintenance	126,302			(126,302)
Pupil transportation	131,114	35,383	101,559	5,828
Central	142,001			(142,001)
Operation of non-instructional services:				
Food service operations	59,012	31,611	40,982	13,581
Other non-instructional services	100			(100)
Extracurricular activities	143	133		(10)
Total governmental activities	<u>\$10,794,805</u>	<u>\$10,020,967</u>	<u>\$505,558</u>	<u>(268,280)</u>
General receipts:				
Grants and entitlements not restricted to specific programs				466,534
Investment earnings				625
Miscellaneous				160,955
Total general receipts				<u>628,114</u>
Change in net cash position				359,834
Net cash position at beginning of year				<u>1,401,547</u>
Net cash position at end of year				<u><u>\$1,761,381</u></u>

See accompanying notes to the basic financial statements.

CHAMPAIGN COUNTY

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

	General	Non-major Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$1,734,282	\$27,099	\$1,761,381
Total assets	<u>1,734,282</u>	<u>27,099</u>	<u>1,761,381</u>
Fund cash balances:			
Restricted:			
Adult education		5,405	5,405
Food service operations		18,928	18,928
Special education		7	7
Other purposes		902	902
Extracurricular		1,857	1,857
Assigned:			
Student instruction	7,885		7,885
Student and staff support	23,210		23,210
Subsequent year's appropriations	703,963		703,963
Uniform school supplies	1,288		1,288
Latchkey program	41,183		41,183
Unassigned	956,753		956,753
Total fund cash balances	<u>\$1,734,282</u>	<u>\$27,099</u>	<u>\$1,761,381</u>

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

	<u>General</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:			
From local sources:			
Tuition	\$9,950,834		\$9,950,834
Earnings on investments	625		625
Charges for services		\$31,611	31,611
Classroom materials and fees	1,583		1,583
Contributions and donations	1,214	404	1,618
Contract services		36,535	36,535
Other local revenues	159,741		159,741
Intergovernmental - state	466,534	392,117	858,651
Intergovernmental - federal		113,441	113,441
Total receipts	<u>10,580,531</u>	<u>574,108</u>	<u>11,154,639</u>
Disbursements:			
Current:			
Instruction:			
Regular	290,552	64,915	355,467
Special	4,085,586	165,061	4,250,647
Support services:			
Pupil	3,546,573	24,521	3,571,094
Instructional staff	528,038		528,038
Board of education	19,053		19,053
Administration	1,295,529	1,800	1,297,329
Fiscal	277,822	36,683	314,505
Operations and maintenance	126,302		126,302
Pupil transportation	2,269	128,845	131,114
Central	142,001		142,001
Operation of non-instructional services:			
Food service operations		59,012	59,012
Other non-instructional services	100		100
Extracurricular activities		143	143
Total disbursements	<u>10,313,825</u>	<u>480,980</u>	<u>10,794,805</u>
Excess of receipts over disbursements	<u>266,706</u>	<u>93,128</u>	<u>359,834</u>
Other financing sources (uses):			
Advances in	238,048	158,471	396,519
Advances (out)	(158,471)	(238,048)	(396,519)
Total other financing sources (uses)	<u>79,577</u>	<u>(79,577)</u>	
Net change in fund cash balances	346,283	13,551	359,834
Fund cash balances at beginning of year	1,387,999	13,548	1,401,547
Fund cash balances at end of year	<u>\$1,734,282</u>	<u>\$27,099</u>	<u>\$1,761,381</u>

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

1. DESCRIPTION OF THE ENTITY

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is an Educational Service Center as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative and other services to the Graham, Jefferson, Jonathan Alder, Madison-Plains, West Liberty-Salem, Triad Local School Districts, London and Urbana City School Districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 123 non-certified and 101 certified employees.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO)

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO 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 districts. This organization is governed by a board of directors consisting of 11 members: two Superintendents from each county that is represented, one treasurer representative, a student services representative, one city school representative and non-voting independent district representative. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

2. Public Entity Purchasing Pools

Northern Buckeye Educational Council Group Retrospective Program

The Center participates in a group retrospective rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Educational Council Group Retrospective Program is administered by Sheakley. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Stark County Schools Council of Governments

The Stark County Schools Council of Governments (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care and dental benefits. The Council is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve on the Board of Directors. The Assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract. Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 38th Street N.W., Canton, Ohio 44709-2300.

B. Basis of Accounting

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

C. Fund Accounting

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

1. Governmental Funds

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

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.

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

2. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has no fiduciary funds.

D. Basis of Presentation

1. Government-wide Financial Statements

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

E. Budgetary Process

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2015, investments were limited to the State Treasury Asset Reserve of Ohio ("STAR Ohio").

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center invested funds in STAR Ohio during fiscal year 2015. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2015.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Interest receipts credited to the general fund during fiscal year 2015 amounted to \$625, which includes \$8 of interest assigned from other funds.

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

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the cash basis of accounting. The Center had no debt obligations during fiscal year 2015.

K. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Center reported no restricted assets.

L. Inventory and Prepaid Items

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Receivables/Payables

The Center reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

O. Fund Cash Balance

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

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

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

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

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

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

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

P. Net Cash Position

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Pensions

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2015, the Center has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68".

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the Center's pension plan disclosures, as presented in Note 6 to the financial statements, and added supplementary information which is presented on pages 37-44.

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 Center.

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

B. Compliance

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

A. Cash on Hand

At fiscal year end, the Center had \$400 in un-deposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all Center deposits was \$1,753,079. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$1,408,761 of the Center's bank balance of \$1,800,945 was exposed to custodial risk as discussed below, while \$392,184 was covered by FDIC.

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

C. Investments

As of June 30, 2015, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturities 6 months or less
STAR Ohio	\$7,902	\$7,902

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to two years or less. Ohio Revised Code Section 135.13 requires interim deposits to mature within one year.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center has no investment policy dealing with investments credit risk beyond the requirements in State statutes.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer.

The following table includes the percentage of each investment type held by the Center at June 30, 2015:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of total</u>
STAR Ohio	\$7,902	100.00

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$1,753,079
Investments	7,902
Cash on hand	400
Total	\$1,761,381

<u>Cash and equivalents per statement of net position</u>	
Governmental activities	\$1,761,381

5. RISK MANAGEMENT

A. Risk Pool Membership

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

Coverages provided by Governmental Underwriters of America, Inc. are as follows:

Automobile liability	\$1,000,000
General liability:	
Per occurrence	1,000,000
Aggregate	3,000,000

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

5. RISK MANAGEMENT (Continued)

B. Employee Medical Benefits

For fiscal year 2015, the Center has contracted with the Stark County Schools Council of Governments (a shared risk pool) (Note 2.A) to provide health insurance, prescription drug benefits, dental insurance, vision insurance, and life insurance. Rates are set through an annual calculation process. The Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating entities. The Center's Governing Board pays a percentage of the premiums. Insurance premiums will vary with each employee depending on marital and family status.

C. Workers' Compensation

For fiscal year 2015, the Center participated in the Northern Buckeye Educational Council Group Retrospective Program (GRP), an insurance purchasing pool (Note 2.A). The intent of the GRP is to achieve a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating schools is calculated as one experience and a common premium rate is applied to all schools in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. The BWC then evaluates the GRP's claim losses at 12, 24, and 36 months following the end of the GRP retro policy year. If the BWC findings result in a group retrospective premium calculation lower than the group's standard premium, participating employers may be entitled to a refund.

6. PENSION PLANS

A. Net Pension Liability

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

6. PENSION PLANS (Continued)

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.

B. Plan Description – School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

6. PENSION PLANS (Continued)

The Center's contractually required contribution to SERS was \$274,727 for fiscal year 2015.

C. Plan Description – State Teachers Retirement System of Ohio (STRS Ohio)

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

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

6. PENSION PLANS (Continued)

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

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

The Center's contractually required contribution to STRS Ohio was \$700,067 for fiscal year 2015.

D. Net Pension Liability

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

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportionate share of the net pension liability	\$3,630,366	\$11,541,986	\$15,172,352
Proportion of the net pension liability	0.07173300%	0.04745207%	

E. 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

6. PENSION PLANS (Continued)

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

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

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

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

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

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

<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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

6. PENSION PLANS (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$5,179,454	\$3,630,366	\$2,327,450

F. Actuarial Assumptions – STRS Ohio

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

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

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

6. PENSION PLANS (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$16,523,611	\$11,541,986	\$7,329,207

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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€ 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

7. POST-EMPLOYMENT BENEFITS (Continued)

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 Center's surcharge obligation was \$35,745.

The Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$17,092, \$2,899, and \$3,664, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

Plan Description – The Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who 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 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 Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$49,101, and \$50,955 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

8. CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the Center as defendant.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

9. OTHER COMMITMENTS

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

Fund Type	Year-End Encumbrances
General fund	\$39,141
Other governmental	670
Total	\$39,811

10. INTERFUND TRANSACTIONS

A. Interfund transactions for the year ended June 30, 2015, consisted of the following, as reported on the fund financial statements:

Advances from general fund to:	Amount
Non-major governmental funds	\$158,471
Advances from non-major governmental funds to:	
General fund	238,048
Total	\$396,519

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

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

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

11. STATE FUNDING

The Center's funding comes from two sources; State and local funding.

The State per-pupil portion of the budget is approximately \$30.24 per pupil.

The local part of the budget is funded in the following way: \$18.23 times the Average Daily Membership (ADM-the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the local school districts to which the Center provides services from payments made under the State's foundation program.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET 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>	
Budgetary basis receipts:				
From local sources:				
Tuition	\$9,514,935	\$10,016,305	\$9,788,893	(\$227,412)
Earnings on investments	427	450	625	175
Contributions and donations	1,045	1,100	854	(246)
Other local revenues	154,281	162,410	159,741	(2,669)
Intergovernmental - state	435,033	457,956	466,534	8,578
Total receipts	<u>10,105,721</u>	<u>10,638,221</u>	<u>10,416,647</u>	<u>(221,574)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	419,199	419,504	294,054	125,450
Special	4,132,668	4,135,669	4,089,102	46,567
Support services:				
Pupil	3,252,058	3,254,419	3,394,569	(140,150)
Instructional staff	484,003	484,354	533,657	(49,303)
Board of education	21,525	21,541	19,053	2,488
Administration	1,526,100	1,527,208	1,297,537	229,671
Fiscal	309,819	310,044	267,957	42,087
Operations and maintenance	131,105	131,200	139,302	(8,102)
Pupil transportation	3,247	3,249	2,269	980
Central	158,162	158,277	142,001	16,276
Operation of non-instructional services:				
Other non-instructional services	100	100	100	
Total disbursements	<u>10,437,986</u>	<u>10,445,565</u>	<u>10,179,601</u>	<u>265,964</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(332,265)</u>	<u>192,656</u>	<u>237,046</u>	<u>44,390</u>
Other financing sources (uses):				
Advances in			238,048	238,048
Advances (out)			(158,471)	(158,471)
Total other financing sources (uses)			<u>79,577</u>	<u>79,577</u>
Net change in fund cash balance	(332,265)	192,656	316,623	123,967
Fund cash balance at beginning of year	1,338,695	1,338,695	1,338,695	
Prior year encumbrances appropriated	5,398	5,398	5,398	
Fund cash balance at end of year	<u>\$1,011,828</u>	<u>\$1,536,749</u>	<u>\$1,660,716</u>	<u>\$123,967</u>

See accompanying notes.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

NOTE 1 - BUDGETARY PROCESS

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

The Center's Governing Board 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 statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

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

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary 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 years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

<u>Net Change in Fund Cash Balance</u>	
	<u>General fund</u>
Cash basis	\$346,283
Funds budgeted elsewhere **	(1,076)
Adjustment for encumbrances	<u>(28,584)</u>
Budget basis	<u>\$316,623</u>

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF THE CENTER'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>
Center's proportion of the net pension liability	0.07173300%	0.07173300%
Center's proportionate share of the net pension liability	\$3,630,366	\$4,265,731
Center's covered-employee payroll	\$2,084,408	\$2,289,812
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	186.29%
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.

Note: Amounts presented as of the Center's measurement date which is the prior fiscal year end.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF THE CENTER'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>
Center's proportion of the net pension liability	0.04745207%	0.04745207%
Center's proportionate share of the net pension liability	\$11,541,986	\$13,748,738
Center's covered-employee payroll	\$4,848,292	\$5,095,469
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	269.82%
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.

Note: Amounts presented as of the Center's measurement date which is the prior fiscal year end.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$274,727	\$288,899	\$316,910	\$251,467
Contributions in relation to the contractually required contribution	<u>(274,727)</u>	<u>(288,899)</u>	<u>(316,910)</u>	<u>(251,467)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Center's covered-employee payroll	\$2,084,423	\$2,084,408	\$2,289,812	\$1,869,643
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>
\$234,927	\$297,309	\$213,269	\$201,727	\$193,033	\$182,280
<u>(234,927)</u>	<u>(297,309)</u>	<u>(213,269)</u>	<u>(201,727)</u>	<u>(193,033)</u>	<u>(182,280)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,868,950	\$2,195,783	\$2,167,368	\$2,054,246	\$1,807,425	\$1,722,873
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$700,067	\$630,278	\$662,411	\$597,340
Contributions in relation to the contractually required contribution	<u>(700,067)</u>	<u>(630,278)</u>	<u>(662,411)</u>	<u>(597,340)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Center's covered-employee payroll	\$5,000,479	\$4,848,292	\$5,095,469	\$4,594,923
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>
\$575,008	\$642,907	\$613,849	\$548,584	\$520,483	\$503,920
<u>(575,008)</u>	<u>(642,907)</u>	<u>(613,849)</u>	<u>(548,584)</u>	<u>(520,483)</u>	<u>(503,920)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,423,138	\$4,945,438	\$4,721,915	\$4,219,877	\$4,003,715	\$3,876,308
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The management's discussion and analysis of the Madison-Champaign Educational Service Center (the "Center") financial performance provides an overall review of the Center's financial activities for the year ended June 30, 2014. The Center has prepared their financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- The total cash-basis net position of the Center was \$1,401,547.
- General receipts accounted for \$1,036,984 or 9.77% of total governmental activities receipts. Program specific receipts accounted for \$9,577,479 or 90.23% of total governmental activities receipts.
- The Center had \$10,571,962 in disbursements related to governmental activities; \$9,577,479 of these disbursements were offset by program specific charges for services and grants or contributions. General receipts of \$1,036,984 were adequate to provide for these programs.
- The Center's major fund is the general fund. The general fund, the Center's largest fund, had total cash receipts and other financing sources of \$10,229,040 in 2014. The cash disbursements and other financing uses of the general fund totaled \$10,192,193. At June 30, 2014, the general fund's cash balance was \$1,387,999.

Using these Basic Financial Statements

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

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

Reporting the Center as a Whole

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

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did the Center perform financially during 2014?" These statements only present the Center's net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This financial reporting framework takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

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

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources, liabilities and deferred inflows of resources, and the effects of these items on revenues and expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant and food service.

The Center's statement of net position - cash basis and statement of activities - cash basis can be found on pages 53-54 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

An analysis of the Center's major governmental funds begins on page 50. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Center's most significant funds. The Center's major governmental fund is the general fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at the year-end available for spending in future periods. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be readily spent to finance various Center programs. The Center's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds, whose activity or balances are not large enough to warrant separate reporting, is aggregated and presented in a single column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 57-71 of this report.

Supplementary Information

The Center has presented a budgetary comparison schedule for the general fund as supplementary information on pages 73-74 of this report.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

The Center as a Whole

The Center prepared financial statements for fiscal year 2013 on the regulatory basis, which did not include a statement of net position or statement of activities.

The table below provides a summary of the Center's net position at June 30, 2014.

Net Position (Cash Basis)	Governmental Activities 2014
Assets:	
Equity in pooled cash and cash equivalents	\$1,401,547
Total assets	1,401,547
Net Cash Position:	
Restricted	13,548
Unrestricted	1,387,999
Total net cash position	\$1,401,547

Over time, net cash position can serve as a useful indicator of an entity's financial position. At June 30, 2014, total net cash position of the Center was \$1,401,547. A portion of the Center's net position, \$13,548, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$1,387,999 may be used to meet the Center's ongoing obligations to the students and creditors.

The table below shows the net cash position for the Center at June 30, 2014.

Change in Net Cash Position	Governmental Activities 2014
Receipts:	
Program revenues:	
Charges for services and sales	\$9,218,443
Operating grants and contributions	359,036
General revenues:	
Grants and entitlements	783,701
Investment earnings	451
Miscellaneous	252,832
Total receipts	10,614,463
Disbursements:	
Instruction:	
Regular	469,394
Special	3,480,051
	(Continued)

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

**Change in Net Cash Position
(Continued)**

	Governmental Activities 2014
Support services:	
Pupil	3,206,564
Instructional staff	856,194
Board of education	21,162
Administration	1,683,767
Fiscal	351,390
Operations and maintenance	163,853
Pupil transportation	137,600
Central	140,568
Operation of non-instructional services:	
Food service operations	61,319
Other non-instructional services	100
Total disbursements	<u>10,571,962</u>
Change in net position	42,501
Net cash position at beginning of year	<u>1,359,046</u>
Net cash position at end of year	<u><u>\$1,401,547</u></u>

Governmental Activities

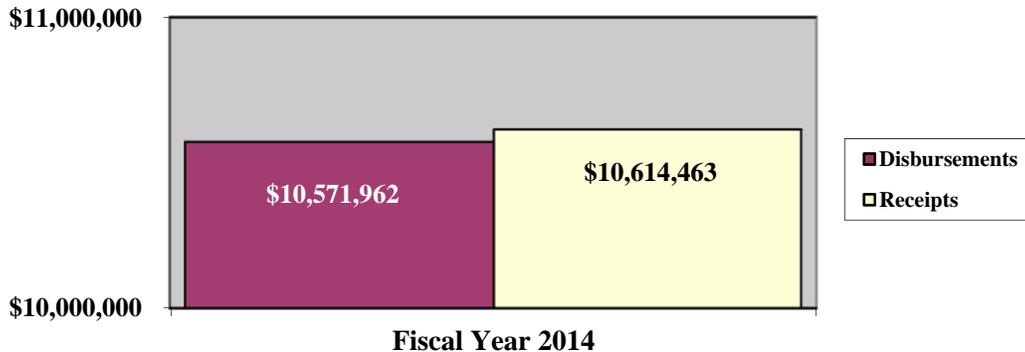
Governmental net cash position was \$1,401,547 at June 30, 2014; total governmental disbursements of \$10,571,962 were offset by program receipts of \$9,577,479 and general receipts of \$1,036,984. Program receipts supported 90.59% of the total governmental disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 86.85% of total governmental cash receipts.

The largest disbursement of the Center is for special instructional programs. Special instructional disbursements totaled \$3,480,051 or 32.92% of total governmental disbursements for fiscal year 2014.

The graph below presents the Center's governmental activities receipts and disbursements for fiscal year 2014.

Governmental Activities - Total Receipts vs. Total Disbursements



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

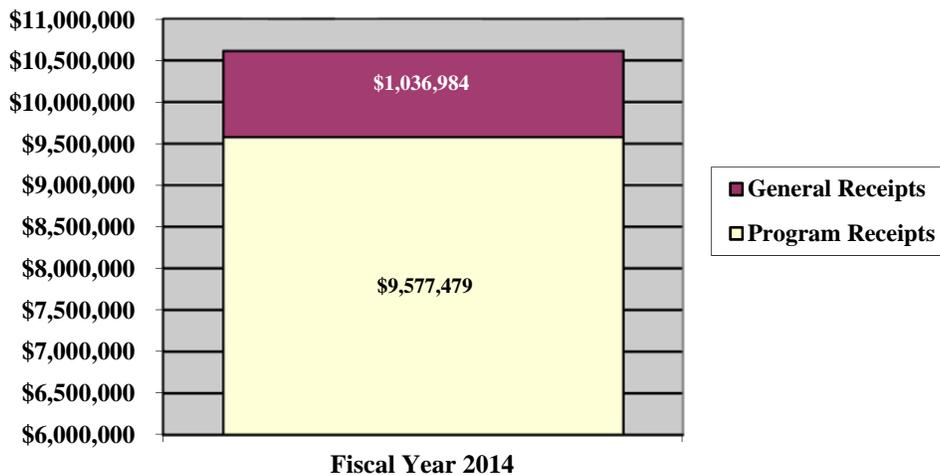
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

The statement of activities shows the cost of program services and the charges for services and grants off setting 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, miscellaneous revenues, and investment earnings.

	Governmental Activities	
	Total Cost of Services 2014	Net Cost of Services 2014
Disbursements:		
Instruction:		
Regular	\$469,394	\$58,856
Special	3,480,051	185,161
Support services:		
Pupil	3,206,564	40,539
Instructional staff	856,194	24,219
Board of education	21,162	21,162
Administration	1,683,767	28,870
Fiscal	351,390	328,669
Operations and maintenance	163,853	163,853
Pupil transportation	137,600	7,086
Central	140,568	140,568
Operation of non-instructional services:		
Food service operations	61,319	(4,600)
Other non-instructional services	100	100
Total	\$10,571,962	\$994,483

The graph below presents the Center's governmental activities receipts for fiscal year 2014.

Governmental Activities - General and Program Receipts



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

The Center's Funds

At June 30, 2014, the Center's governmental funds reported a combined cash fund balance of \$1,401,547, which is \$42,501 greater than last year's total of \$1,359,046. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2014 and June 30, 2013, for all major and non-major governmental funds.

	Fund Cash Balance June 30, 2014	Fund Cash Balance June 30, 2013	Increase
Major fund:			
General	\$1,387,999	\$1,351,152	\$36,847
Other governmental funds	13,548	7,894	5,654
Total	\$1,401,547	\$1,359,046	\$42,501

General Fund

The general fund, the Center's largest fund, had total receipts and other financing sources of \$10,229,040 in 2014. The disbursements and other financing uses of the general fund, totaled \$10,192,193 in 2014. The general fund's balance was \$1,387,999 at fiscal year-end.

	2014 Amount	2013 Amount	Increase (Decrease)	Percentage Change
Cash receipts:				
Tuition	\$9,154,330	\$8,143,025	\$1,011,305	12.42 %
Other revenues	254,720	284,030	(29,310)	(10.32) %
Intergovernmental	783,701	1,273,769	(490,068)	(38.47) %
Total	\$10,192,751	\$9,700,824	\$491,927	5.07 %
Cash disbursements:				
Instruction	\$3,627,333	\$2,564,899	\$1,062,434	41.42 %
Support services	6,326,712	7,108,878	(782,166)	(11.00) %
Other non-instructional services	100	100	0	0 %
Total	\$9,954,145	\$9,673,877	\$280,268	2.90 %

Intergovernmental receipts decreased by approximately \$490,000 in fiscal year 2014. This is due to cuts to ESC funding made by the State. The Center was forced to charge member districts more during fiscal year 2014 to make up for these cuts. This partially explains the increase in tuition receipts. Tuition receipts also increased because the Center provided more services to districts in fiscal year 2014. The differences in instructional and support services disbursements between fiscal years 2013 and 2014 are due to coding changes in the Uniform School Accounting System (USAS), which reclassified certain disbursements from support services to instructional. Also, the Center provided more services to districts during fiscal year 2014, which resulted in an overall increase in general fund disbursements.

Capital Assets and Debt Administration

Capital Assets

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Debt Administration

At June 30, 2014, the Center had no long-term obligations outstanding. The Center had no capital leases obligations and is not permitted to issue debt.

Current Issues

The Center, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Madison and Champaign counties, as well as State Foundation revenue and grants. The need for additional services from school districts will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2015. However, the future financial stability of the Center is not without concerns.

In fiscal year 2012, every educational service center (ESC) in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 1512 US 68, Urbana, Ohio 43078.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2014**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,401,547
Total assets	1,401,547
 Net cash position:	
Restricted for:	
State funded programs	20
Federally funded programs	6,294
Student activities	1,887
Other purposes	5,347
Unrestricted	1,387,999
Total net cash position	\$1,401,547

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$469,394	\$342,919	\$67,619	(\$58,856)
Special	3,480,051	3,223,490	71,400	(185,161)
Support services:				
Pupil	3,206,564	3,127,510	38,515	(40,539)
Instructional staff	856,194	816,331	15,644	(24,219)
Board of education	21,162			(21,162)
Administration	1,683,767	1,645,897	9,000	(28,870)
Fiscal	351,390	931	21,790	(328,669)
Operations and maintenance	163,853			(163,853)
Pupil transportation	137,600	28,919	101,595	(7,086)
Central	140,568			(140,568)
Operation of non-instructional services:				
Food service operations	61,319	32,446	33,473	4,600
Other non-instructional services	100			(100)
Total governmental activities	<u>\$10,571,962</u>	<u>\$9,218,443</u>	<u>\$359,036</u>	<u>(994,483)</u>
General receipts:				
Grants and entitlements not restricted to specific programs				783,701
Investment earnings				451
Miscellaneous				252,832
Total general receipts				<u>1,036,984</u>
Change in net cash position				42,501
Net cash position at beginning of year				<u>1,359,046</u>
Net cash position at end of year				<u>\$1,401,547</u>

See accompanying notes to the basic financial statements.

**MADISION-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$1,387,999	\$13,548	\$1,401,547
Total assets	<u>1,387,999</u>	<u>13,548</u>	<u>1,401,547</u>
Fund cash balances:			
Restricted:			
Adult education		5,405	5,405
Food service operations		5,347	5,347
Special education		7	7
Other purposes		902	902
Extracurricular		1,887	1,887
Assigned:			
Student instruction	2,841		2,841
Student and staff support	4,708		4,708
Uniform school supplies	572		572
Latchkey program	41,183		41,183
Unassigned	1,338,695		1,338,695
Total fund cash balances	<u>\$1,387,999</u>	<u>\$13,548</u>	<u>\$1,401,547</u>

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General	Non-major Governmental Funds	Total Governmental Funds
Receipts:			
From local sources:			
Tuition	\$9,154,330		\$9,154,330
Earnings on investments	451		451
Charges for services		\$32,446	32,446
Extracurricular		380	380
Classroom materials and fees	1,437		1,437
Contributions and donations	687	670	1,357
Contract services		29,850	29,850
Other local revenues	252,145		252,145
Intergovernmental - state	783,701	260,463	1,044,164
Intergovernmental - federal		97,903	97,903
Total receipts	10,192,751	421,712	10,614,463
Disbursements:			
Current:			
Instruction:			
Regular	348,955	120,439	469,394
Special	3,278,378	201,673	3,480,051
Support services:			
Pupil	3,182,557	24,007	3,206,564
Instructional staff	830,699	25,495	856,194
Board of education	21,162		21,162
Administration	1,674,866	8,901	1,683,767
Fiscal	305,707	45,683	351,390
Operations and maintenance	163,853		163,853
Pupil transportation	7,300	130,300	137,600
Central	140,568		140,568
Operation of non-instructional services:			
Food service operations		61,319	61,319
Other non-instructional services	100		100
Total disbursements	9,954,145	617,817	10,571,962
Excess (deficiency) of receipts over (under) disbursements	238,606	(196,105)	42,501
Other financing sources (uses):			
Advances in	36,289	238,048	274,337
Advances (out)	(238,048)	(36,289)	(274,337)
Total other financing sources (uses)	(201,759)	201,759	
Net change in fund cash balances	36,847	5,654	42,501
Fund cash balances at beginning of year	1,351,152	7,894	1,359,046
Fund cash balances at end of year	\$1,387,999	\$13,548	\$1,401,547

See accompanying notes to the basic financial statements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE ENTITY

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is an Educational Service Center as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative and other services to the Graham, Jefferson, Jonathan Alder, Madison-Plains, West Liberty-Salem, Triad Local School Districts, London and Urbana City School Districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 126 non-certified and 117 certified employees.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO)

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO 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 districts. This organization is governed by a board of directors consisting of 11 members: two Superintendents from each county that is represented, one treasurer representative, a student services representative, one city school representative and non-voting independent district representative. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

2. Public Entity Purchasing Pools

Northern Buckeye Educational Council Group Retrospective Program

The Center participates in a group retrospective rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Educational Council Group Retrospective Program is administered by Sheakley. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Stark County Schools Council of Governments

The Stark County Schools Council of Governments (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care and dental benefits. The Council is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve on the Board of Directors. The Assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract. Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 38th Street N.W., Canton, Ohio 44709-2300.

B. Basis of Accounting

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

C. Fund Accounting

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

1. Governmental Funds

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

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.

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

2. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has no fiduciary funds.

D. Basis of Presentation

1. Government-wide Financial Statements

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

E. Budgetary Process

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2014, investments were limited to the State Treasury Asset Reserve of Ohio ("STAR Ohio").

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Interest receipts credited to the general fund during fiscal year 2014 amounted to \$451, which includes \$4 of interest assigned from other funds.

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

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the cash basis of accounting. The Center had no debt obligations during fiscal year 2014.

K. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Center reported no restricted assets.

L. Inventory and Prepaid Items

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

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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Receivables/Payables

The Center reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

O. Fund Cash Balance

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

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

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

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

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

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

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

P. Net Cash Position

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the Center has implemented GASB Statement No. 67, "Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25", and GASB Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees".

GASB Statement No. 67 improves the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the Center.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Center.

B. Compliance

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

C. Change in Accounting Basis

During fiscal year 2014, the Center changed from the regulatory basis of accounting to the cash basis of accounting (see Note 2.B). The cash basis of accounting focuses on major funds, in contrast, the regulatory basis of accounting focused on reporting by fund-types. The Center has also elected to present the cash basis financial statements in a GASB 34-like format.

For reporting in accordance with GASB 34-like statements, the Center is required to present government-wide financial statements. These statements consolidate all governmental activities in a single column.

The governmental activities net cash assets at June 30, 2013 equal the fund cash balances at June 30, 2013 since there are no adjustments required to convert the fund financial statements to the government-wide financial statements.

4. DEPOSITS AND INVESTMENTS

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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. No-load money market mutual funds consisting exclusively of obligations described in items (1 or 2) above and repurchase agreements secured by such obligations, provided that investments in such securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

A. Cash on Hand

At fiscal year end, the Center had \$400 in un-deposited cash on hand which is included on the financial statements of the Center as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all Center deposits was \$1,393,249. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2014, \$1,251,113 of the Center’s bank balance of \$1,751,113 was exposed to custodial risk as discussed below, while \$500,000 was covered by FDIC.

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

C. Investments

As of June 30, 2014, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>6 months or</u> <u>less</u>
STAR Ohio	\$7,898	\$7,898

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center’s investment policy limits investment portfolio maturities to two years or less. Ohio Revised Code Section 135.13 requires interim deposits to mature within one year.

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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center has no investment policy dealing with investments credit risk beyond the requirements in State statutes.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer.

The following table includes the percentage of each investment type held by the Center at June 30, 2014:

Investment type	<u>Fair Value</u>	<u>% of total</u>
STAR Ohio	<u>\$7,898</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments reported in the note above to cash as reported on the statement of net position as of June 30, 2014:

<u>Cash and investments per note:</u>	
Carrying amount of deposits	\$1,393,249
Investments	7,898
Cash on hand	<u>400</u>
Total	<u>\$1,401,547</u>
 <u>Cash and equivalents per statement of net position</u>	
Governmental activities	<u>\$1,401,547</u>

5. RISK MANAGEMENT

A. Risk Pool Membership

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Center contracted for the following insurance coverages:

Coverages provided by Governmental Underwriters of America, Inc. are as follows:

Automobile liability	\$1,000,000
General liability:	
Per occurrence	1,000,000
Aggregate	3,000,000

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

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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

5. RISK MANAGEMENT (Continued)

B. Employee Medical Benefits

For fiscal year 2014, the Center has contracted with the Stark County Schools Council of Governments (a shared risk pool) (Note 2.A) to provide health insurance, prescription drug benefits, dental insurance, vision insurance, and life insurance. Rates are set through an annual calculation process. The Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating entities. The Center's Governing Board pays a percentage of the premiums. Insurance premiums will vary with each employee depending on marital and family status.

C. Workers' Compensation

For fiscal year 2014, the Center participated in the Northern Buckeye Educational Council Group Retrospective Program (GRP), an insurance purchasing pool (Note 2.A). The intent of the GRP is to achieve a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating schools is calculated as one experience and a common premium rate is applied to all schools in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. The BWC then evaluates the GRP's claim losses at 12, 24, and 36 months following the end of the GRP retro policy year. If the BWC findings result in a group retrospective premium calculation lower than the group's standard premium, participating employers may be entitled to a refund.

6. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$271,244, \$299,965 and \$237,445, respectively 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
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(Continued)**

6. PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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

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

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

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$638,319, \$662,411 and \$597,340, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Board have elected Social Security. The Center's liability is 6.2 percent of wages paid.

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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$2,899, \$3,664 and \$10,283, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$15,736, \$16,945 and \$14,022, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$49,101, \$50,955 and \$45,949, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

8. CONTINGENCIES

A. Grants

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

B. Litigation

There are currently no matters in litigation with the Center as defendant.

9. OTHER COMMITMENTS

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

Fund Type	Year-End Encumbrances
General fund	\$11,990
Other governmental	332
Total	\$12,322

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CHAMPAIGN COUNTY**

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

10. INTERFUND TRANSACTIONS

Interfund transactions for the year ended June 30, 2014, consisted of the following, as reported on the fund financial statements:

Advances from general fund to:	Amount
Non-major governmental funds	\$238,048
Advances from non-major governmental funds to:	
General fund	36,289
Total	<u>\$274,337</u>

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

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

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

11. STATE FUNDING

The Center's funding comes from two sources; State and local funding.

The State per-pupil portion of the budget is approximately \$30.24 per pupil.

The local part of the budget is funded in the following way: \$18.23 times the Average Daily Membership (ADM-the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the local school districts to which the Center provides services from payments made under the State's foundation program.

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Tuition	\$8,666,488	\$9,224,216	\$8,984,139	(\$240,077)
Earnings on investments	838	892	451	(441)
Contributions and donations	579	616	687	71
Other local revenues	278,434	296,353	252,145	(44,208)
Intergovernmental - state	698,799	743,770	783,701	39,931
Total receipts	<u>9,645,138</u>	<u>10,265,847</u>	<u>10,021,123</u>	<u>(244,724)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	231,861	239,092	348,959	(109,867)
Special	3,538,262	3,648,598	3,304,321	344,277
Support services:				
Pupil	2,801,468	2,888,828	3,018,579	(129,751)
Instructional staff	831,024	856,938	830,809	26,129
Board of education	18,868	19,456	21,162	(1,706)
Administration	1,600,517	1,650,427	1,676,327	(25,900)
Fiscal	312,442	322,185	297,490	24,695
Operations and maintenance	127,533	131,510	163,853	(32,343)
Pupil transportation	7,717	7,958	8,249	(291)
Central	111,638	115,119	140,568	(25,449)
Operation of non-instructional services:				
Other non-instructional services	97	100	100	
Total disbursements	<u>9,581,427</u>	<u>9,880,211</u>	<u>9,810,417</u>	<u>69,794</u>
Excess of receipts over disbursements	<u>63,711</u>	<u>385,636</u>	<u>210,706</u>	<u>(174,930)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	24,583	24,583	24,583	
Transfers in	151,469	151,469	151,469	
Transfers (out)	(151,469)	(151,469)	(151,469)	
Advances in	36,289	36,289	36,289	
Advances (out)	(238,048)	(238,048)	(238,048)	
Total other financing sources (uses)	<u>(177,176)</u>	<u>(177,176)</u>	<u>(177,176)</u>	
Net change in fund balance	(113,465)	208,460	33,530	(174,930)
Fund cash balance at beginning of year	1,264,976	1,264,976	1,264,976	
Prior year encumbrances appropriated	40,189	40,189	40,189	
Fund cash balance at end of year	<u>\$1,191,700</u>	<u>\$1,513,625</u>	<u>\$1,338,695</u>	<u>(\$174,930)</u>

See accompanying notes.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - BUDGETARY PROCESS

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

The Center's Governing Board 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 statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

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

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary 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 years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

<u>Net Change in Fund Cash Balance</u>	
	<u>General fund</u>
Cash basis	\$36,847
Funds budgeted elsewhere **	2,081
Adjustment for encumbrances	<u>(5,398)</u>
Budget basis	<u>\$33,530</u>

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



Dave Yost • Auditor of State

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

Madison-Champaign Educational Service Center
Champaign County
1512 S. U.S. Highway 68, Suite J100
Urbana, Ohio 43078

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Madison-Champaign Educational Service Center, Champaign County, Ohio (the Center) as of and for the years ended June 30, 2015 and June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 15, 2016, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles. We also noted, during 2014, the Center elected to change its financial presentation to a cash basis comparable to the requirements of *Governmental Accounting Standards* as discussed in Note 3.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Center's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

April 15, 2016

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2015**

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

FINDING NUMBER 2015-001

Noncompliance

Ohio Rev. Code §117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. The report shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code §117-2-03(B) requires the Center to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal years 2015 and 2014, the Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Additionally, the Center did not file its cash basis reports within sixty days after year end. The Center filed both 2014 and 2015 reports in January 2016. Pursuant to Ohio Rev. Code Section 117.38, the Center may be fined and subject to various other administrative remedies for its failure to file the required GAAP financial reports timely.

The Center should prepare the financial statements according to generally accepted accounting principles to provide users with more meaningful financial statements. The Center should also implement procedures to timely submit the annual financial reports.

Officials' Response:

The Governing Board and Management of the Center are knowledgeable concerning the required reporting format (Generally Accepted Accounting Principles) and the similarities and differences from the required reporting format and the method currently incorporated by the Center (Cash Basis of Accounting). Center personnel considered the cost benefit of the two reporting formats and determined reporting of the Cash Basis of Accounting format to be the more fiscally responsible format at this time.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03(B) – Failure to prepare financial statements in accordance with GAAP	No	Repeated as Finding 2015-001



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MADISON CHAMPAIGN EDUCATIONAL SERVICE CENTER

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 17, 2016