



*SOUTH CENTRAL OHIO EDUCATIONAL  
SERVICE CENTER*

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SCIOTO COUNTY

REGULAR AUDIT

For the Fiscal Year Ended June 30, 2016

**J.L. UHRIG**  
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS







# Dave Yost • Auditor of State

Board of Education  
South Central Educational Service Center  
522 Glenwood Ave  
New Boston, Ohio 45662

We have reviewed the *Independent Auditor's Report* of the South Central Educational Service Center, Scioto County, prepared by J.L. Uhrig and Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The South Central Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

March 15, 2017

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*For the Fiscal Year Ended June 30, 2016*

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## **Independent Auditor's Report**

South Central Ohio Educational Service Center  
522 Glenwood Avenue  
New Boston, Ohio 45662

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of South Central Ohio Educational Service Center (Educational Service Center), Scioto County as of and for the year ended June 30, 2016, and related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

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

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

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

South Central Ohio Educational Service Center  
Scioto County  
Independent Auditor's Report

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the South Central Ohio Educational Service Center, Scioto County as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis on pages 4-10 and schedules of net pension liabilities and pension contributions on pages 50-55, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any assurance.

*Supplemental and Other Information*

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

The budgetary comparison information on pages 56-58 presents additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information is management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this budgetary comparison information to the auditing procedures applied to the basic financial statements. In our opinion, this budgetary comparison information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2017, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

January 25, 2017

**South Central Ohio Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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The discussion and analysis of the South Central Ohio Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

- General revenues accounted for \$980,523 of total revenues. Program specific revenues in the form of charges for services, operating and capital grants, and contributions accounted for \$10,695,101 of total revenues of \$11,675,624.
- The Educational Service Center had \$11,439,515 in expenses related to governmental activities; these expenses were offset by \$10,695,101 of program specific charges for services, grants, and contributions.

**Using the Basic Financial Statements**

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

The Statement of Net Position and the Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's major funds with all other nonmajor funds presented in total in one column. The only major fund for the Educational Service Center is the General Fund.

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

One of the most important questions asked about the Educational Service Center is "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**South Central Ohio Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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

In the Statement of Net Position and the Statement of Activities, the Educational Service Center has only one kind of activity:

- Governmental Activities – All of the Educational Service Center's educational programs and services are reported here including instruction and support services, which include operation and maintenance of plant and pupil transportation.

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

#### **Fund Financial Statements**

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

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

**Fiduciary Funds** – The Educational Service Center's fiduciary funds are agency funds. All of the Educational Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.

**South Central Ohio Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

**The Educational Service Center as a Whole**

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net position for fiscal years 2016 and 2015:

	Governmental Activities		Increase/ (Decrease)
	2016	2015	
<b><u>Assets:</u></b>			
Current Assets	\$2,790,008	\$2,644,229	\$145,779
Capital Assets, Net	1,298,925	1,334,124	(35,199)
<i>Total Assets</i>	<u>4,088,933</u>	<u>3,978,353</u>	<u>110,580</u>
<b><u>Deferred Outflows of Resources:</u></b>			
Pension	2,090,467	1,127,499	962,968
<b><u>Liabilities:</u></b>			
Other Liabilities	917,367	1,029,013	(111,646)
Long-Term Liabilities:			
Due Within One Year	122,371	122,054	317
Due In More Than One Year:			
Net Pension Liability	17,371,597	14,911,236	2,460,361
Other Amounts	616,697	553,282	63,415
<i>Total Liabilities</i>	<u>19,028,032</u>	<u>16,615,585</u>	<u>2,412,447</u>
<b><u>Deferred Inflows of Resources:</u></b>			
Pension	1,119,507	2,694,515	(1,575,008)
<b><u>Net Position:</u></b>			
Net Investment in Capital Assets	1,298,925	1,334,124	(35,199)
Restricted	23,897	35,107	(11,210)
Unrestricted (Deficit)	(15,290,961)	(15,573,479)	282,518
<i>Total Net Position (Deficit)</i>	<u>(\$13,968,139)</u>	<u>(\$14,204,248)</u>	<u>\$236,109</u>

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**South Central Ohio Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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

GASB 68 requires the net pension liability to equal the Educational Service Center's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

**South Central Ohio Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2016**  
**Unaudited**

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

Total assets increased \$110,580. The majority of this increase resulted from an increase in cash and cash equivalents. This was a result of the Educational Service Center offering additional classrooms and services and adding students. The increase in revenues exceeded the additional cost of providing these services.

Total liabilities increased \$2,412,447. Long-term liabilities increased mainly due to an increase in the net pension liability.

Total net position increased \$236,109. Unrestricted net position, when viewed alone, experienced an increase of \$282,518 when compared to the prior year.

Table 2 shows the changes in net assets for fiscal years 2016 and 2015.

Table 2  
Change in Net Position

	Governmental Activities		Increase/ (Decrease)
	2016	2015	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$10,227,363	\$9,247,055	\$980,308
Operating Grants, Contributions, and Interest	467,738	691,041	(223,303)
<b>Total Program Revenues</b>	<b>10,695,101</b>	<b>9,938,096</b>	<b>757,005</b>
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs	940,567	893,563	47,004
Investment Earnings	13,882	10,165	3,717
Miscellaneous	26,074	14,344	11,730
<b>Total General Revenues</b>	<b>980,523</b>	<b>918,072</b>	<b>62,451</b>
<b>Total Revenues</b>	<b>\$11,675,624</b>	<b>\$10,856,168</b>	<b>\$819,456</b>

(continued)

**South Central Ohio Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2016**  
**Unaudited**

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		Increase/ (Decrease)
	2016	2015	
<b><u>Program Expenses:</u></b>			
Instruction:			
Regular	\$355,508	\$284,037	\$71,471
Special	5,405,294	4,876,418	528,876
Adult/Continuing	172,565	180,785	(8,220)
Support Services:			
Pupils	2,567,544	2,451,316	116,228
Instructional Staff	1,166,072	1,516,047	(349,975)
Board of Education	28,838	30,017	(1,179)
Administration	790,759	663,000	127,759
Fiscal	313,932	304,813	9,119
Operation and Maintenance of Plant	449,885	233,767	216,118
Central	189,118	146,046	43,072
<i>Total Expenses</i>	<u>11,439,515</u>	<u>10,686,246</u>	<u>753,269</u>
<i>Increase in Net Position</i>	236,109	169,922	66,187
<i>Net Position at Beginning of Year</i>	(14,204,248)	(14,374,170)	169,922
<i>Net Position at End of Year</i>	<u>(\$13,968,139)</u>	<u>(\$14,204,248)</u>	<u>\$236,109</u>

**Governmental Activities**

Total program revenues increased \$757,005 from the prior fiscal year. This increase was a result of the Educational Service Center receiving more in charges for tuition and fees compared to the prior year. The Educational Service Center offered additional classrooms for special needs students during fiscal year 2016 that it did not offer in the prior fiscal year.

General revenues represent \$980,523 of the Educational Service Center's total revenues, and of this amount, \$940,567 consists of grants and entitlements not restricted to specific programs.

The major program expense for governmental activities is instruction, which accounts for \$5,933,367 of all governmental expenses of \$11,439,515. Other programs which support the instruction process, including pupils and instructional staff account for \$3,733,616 of governmental expenses. Special instruction increased \$528,876 mostly due to the addition of aides in association with adding the additional special needs classrooms.

***South Central Ohio Educational Service Center***  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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**The Educational Service Center's Funds**

The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,680,679 and expenditures of \$11,418,199. This was a result of the Educational Service Center offering additional classrooms and services and adding students. The increase in revenues exceeded the additional cost of providing these services.

**Capital Assets**

At the end of fiscal year 2016, the Educational Service Center had \$1,298,925 invested in capital assets (net of accumulated depreciation), a decrease of \$35,199. Additions to capital assets included building improvements and miscellaneous equipment. For further information regarding the Educational Service Center's capital assets, refer to Note 8 to the basic financial statements.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information, contact Andrew T. Riehl, Treasurer, South Central Ohio Educational Service Center, 522 Glenwood Avenue, New Boston, Ohio 45662, or by calling 740-354-0234.

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*South Central Ohio Educational Service Center*

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$2,541,032
Accounts Receivable	32,097
Accrued Interest Receivable	1,436
Intergovernmental Receivable	209,355
Prepaid Items	6,088
Capital Assets:	
Land	78,460
Depreciable Capital Assets, Net	<u>1,220,465</u>
<i>Total Assets</i>	<u>4,088,933</u>
<b><u>Deferred Outflows of Resources:</u></b>	
Pension	<u>2,090,467</u>
<b><u>Liabilities:</u></b>	
Accounts Payable	277
Accrued Wages and Benefits Payable	765,830
Intergovernmental Payable	146,076
Matured Compensated Absences Payable	5,184
Long-Term Liabilities:	
Due Within One Year	122,371
Due in More Than One Year:	
Net Pension Liability	17,371,597
Other Amounts	<u>616,697</u>
<i>Total Liabilities</i>	<u>19,028,032</u>
<b><u>Deferred Inflows of Resources:</u></b>	
Pension	<u>1,119,507</u>
<b><u>Net Position:</u></b>	
Net Investment in Capital Assets	1,298,925
Restricted for:	
State and Federal Grants	23,897
Unrestricted (Deficit)	<u>(15,290,961)</u>
<i>Total Net Position (Deficit)</i>	<u><u>(\$13,968,139)</u></u>

See accompanying notes to the basic financial statements

**South Central Ohio Educational Service Center**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b><u>Governmental Activities:</u></b>				
Instruction:				
Regular	\$355,508	\$0	\$138,208	(\$217,300)
Special	5,405,294	6,304,336	50,078	949,120
Adult/Continuing	172,565	6,349	151,116	(15,100)
Support Services:				
Pupils	2,567,544	2,292,968	36,887	(237,689)
Instructional Staff	1,166,072	1,356,722	50,916	241,566
Board of Education	28,838	0	0	(28,838)
Administration	790,759	216,497	33,458	(540,804)
Fiscal	313,932	0	0	(313,932)
Operation and Maintenance of Plant	449,885	0	5,275	(444,610)
Central	189,118	50,491	1,800	(136,827)
<b>Total Governmental Activities</b>	<b>\$11,439,515</b>	<b>\$10,227,363</b>	<b>\$467,738</b>	<b>(744,414)</b>
<b>General Revenues:</b>				
Grants and Entitlements not Restricted to Specific Programs				940,567
Investment Earnings				13,882
Miscellaneous				26,074
<b>Total General Revenues</b>				<b>980,523</b>
Change in Net Position				236,109
<b>Net Position (Deficit) at Beginning of Year</b>				<b>(14,204,248)</b>
<b>Net Position (Deficit) at End of Year</b>				<b>(\$13,968,139)</b>

See accompanying notes to the basic financial statements

**South Central Ohio Educational Service Center**

Balance Sheet  
Governmental Funds  
June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$2,513,071	\$27,961	\$2,541,032
Receivables:			
Accounts	32,097	0	32,097
Intergovernmental	123,798	85,557	209,355
Accrued Interest	1,436	0	1,436
Interfund	35,895	0	35,895
Prepaid Items	5,943	145	6,088
<i>Total Assets</i>	<u>\$2,712,240</u>	<u>\$113,663</u>	<u>\$2,825,903</u>
<b><u>Liabilities:</u></b>			
Accounts Payable	\$277	\$0	\$277
Accrued Wages and Benefits Payable	729,066	36,764	765,830
Intergovernmental Payable	139,127	6,949	146,076
Interfund Payable	0	35,895	35,895
Matured Compensated Absences Payable	5,184	0	5,184
<i>Total Liabilities</i>	<u>873,654</u>	<u>79,608</u>	<u>953,262</u>
<b><u>Deferred Inflows of Resources :</u></b>			
Unavailable Revenue	285	0	285
<b><u>Fund Balances:</u></b>			
Nonspendable	5,943	145	6,088
Restricted	0	39,855	39,855
Assigned	169,821	0	169,821
Unassigned (Deficit)	1,662,537	(5,945)	1,656,592
<i>Total Fund Balances</i>	<u>1,838,301</u>	<u>34,055</u>	<u>1,872,356</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,712,240</u>	<u>\$113,663</u>	<u>\$2,825,903</u>

See accompanying notes to the basic financial statements

*South Central Ohio Educational Service Center*  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2016

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**Total Governmental Fund Balances** \$1,872,356

*Amounts reported for governmental activities in the  
 Statement of Net Position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	78,460	
Capital assets	2,260,722	
Accumulated depreciation	<u>(1,040,257)</u>	
Total Capital Assets		1,298,925

Some of the Educational Service Center's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Accrued Interest		285
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.

Deferred Outflows - Pension	2,090,467	
Net Pension Liability	(17,371,597)	
Deferred Inflows - Pension	<u>(1,119,507)</u>	
Total		(16,400,637)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences		<u>(739,068)</u>
Total liabilities		

**Net Position of Governmental Activities** (\$13,968,139)

See accompanying notes to the basic financial statements

**South Central Ohio Educational Service Center**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Revenues:</u></b>			
Intergovernmental	\$944,069	\$437,742	\$1,381,811
Investment Earnings	13,981	0	13,981
Tuition and Fees	8,113,586	22,980	8,136,566
Customer Sales and Service	2,090,797	0	2,090,797
Contributions and Donations	31,450	0	31,450
Miscellaneous	26,074	0	26,074
<i>Total Revenues</i>	<u>11,219,957</u>	<u>460,722</u>	<u>11,680,679</u>
<b><u>Expenditures:</u></b>			
Current:			
Instruction:			
Regular	222,347	129,935	352,282
Special	5,308,912	57,223	5,366,135
Adult/Continuing	26,513	153,271	179,784
Support Services:			
Pupils	2,533,232	33,355	2,566,587
Instructional Staff	1,143,568	53,431	1,196,999
Board of Education	29,078	0	29,078
Administration	767,198	27,644	794,842
Fiscal	309,024	0	309,024
Operation and Maintenance of Plant	436,366	5,500	441,866
Central	179,802	1,800	181,602
<i>Total Expenditures</i>	<u>10,956,040</u>	<u>462,159</u>	<u>11,418,199</u>
<i>Net Change in Fund Balances</i>	263,917	(1,437)	262,480
<i>Fund Balances at Beginning of Year</i>	<u>1,574,384</u>	<u>35,492</u>	<u>1,609,876</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,838,301</u></u>	<u><u>\$34,055</u></u>	<u><u>\$1,872,356</u></u>

See accompanying notes to the basic financial statements

**South Central Ohio Educational Service Center**  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2016

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**Net Change in Fund Balances - Total Governmental Funds** \$262,480

***Amounts reported for governmental activities in the  
 Statement of Activities are different because:***

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this is the amount by which depreciation exceeded capital outlay:

Capital Asset Additions	10,400	
Current Year Depreciation	(45,599)	
Excess of depreciation expense over capital outlay		(35,199)

Because some revenues will not be collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are therefore recorded as deferred inflows of resources in the governmental funds. Deferred inflows of resources changed by these amounts this year:

Intergovernmental	(1,454)	
Interest	(99)	
Total		(1,553)

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 1,028,743

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities. (951,128)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Grants cancelled	(3,502)	
Increase in compensated absences payable	(63,732)	
Total		(67,234)

**Change in Net Position of Governmental Activities** \$236,109

See accompanying notes to the basic financial statements

*South Central Ohio Educational Service Center*  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016

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	<u>Agency Funds</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$72,425</u>
<b><u>Liabilities:</u></b>	
Undistributed Monies	<u>\$72,425</u>

See accompanying notes to the basic financial statements

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

The South Central Ohio Educational Service Center (the “Educational Service Center”), is located in Portsmouth, Ohio, the county seat of Scioto County. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, Wheelersburg, and Manchester Local School Districts, as well as the Scioto County Career Technical Center. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 87 classified, 110 certified, and two administrative personnel that provide services to the local, city, and joint vocational school districts.

*Reporting Entity*

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

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

***South Central Ohio Educational Service Center***

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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The Educational Service Center participates in five organizations, three of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as a related organization. Information about these organizations is presented in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

South Central Ohio Computer Association Regional Council of Governments  
(SCOCARCoG)

Family and Children First Council of Scioto County

Coalition of Rural and Appalachian Schools

Public Entity Shared Risk Pool:

Optimal Health Initiatives Consortium

Related Organization:

Scioto County Career Technical Center

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County. The Family and Children First Council provides services to disadvantaged school age children. This organization is presented as an agency fund within the Educational Service Center's financial statements.

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

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

**Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The Educational Service Center, however, has no activities which are reported as business-type.

## *South Central Ohio Educational Service Center*

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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The Statement of Net Position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues 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. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

#### *Fund Financial Statements*

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

#### **Fund Accounting**

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

#### *Governmental Funds*

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

The following is the Educational Service Center's major governmental fund:

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

## *South Central Ohio Educational Service Center*

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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The nonmajor governmental funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

#### *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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations and individuals.

#### **Measurement Focus**

##### *Government-wide Financial Statements*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the Educational Service Center are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

##### *Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

#### **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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*Revenues - Exchange and Non-exchange Transactions*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

*Deferred Outflows/Inflows of Resources:*

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include pension and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 10).

For the Educational Service Center unavailable revenue includes interest and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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*Expenses/Expenditures*

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

**Pensions**

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

**Cash and Cash Equivalents**

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

During fiscal year 2016, the Educational Service Center's investments were limited to money market, negotiable certificates of deposit, and Federal Home Loan Bank Bonds. Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$13,981, which includes \$502 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as Cash Equivalents.

**Capital Assets**

The Educational Service Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, are depreciated. Depreciation of the building is computed using the straight-line method over fifty years. Building improvements and furniture, fixtures and equipment are computed using the straight-line method over five to 20 years.

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probably that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

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

**Accrued Liabilities and Long-Term Obligations**

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

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

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payable”. These amounts are eliminated in the governmental activities column of the Statement of Net Position.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**Internal Activity**

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

**Fund Balance**

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

*Nonspendable*

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

*Restricted*

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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*Committed*

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

*Assigned*

Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent amounts assigned by the Treasurer for the encumbered amounts for outstanding obligations. The Treasurer has been given authority to assign amounts for the purposes by the Educational Service Center's Board.

*Unassigned*

Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**Net Position**

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include State grants restricted to expenditures for specified purposes.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**Estimates**

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

**NOTE 3 - FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Education Service Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Nonmajor Governmental Funds	Total
<b><i>Nonspendable</i></b>			
Prepays	\$5,943	\$145	\$6,088
<b><i>Restricted for</i></b>			
Alternative School	0	14,791	14,791
Adult Basic Literacy Education	0	6,569	6,569
Miscellaneous Grants	0	17,714	17,714
Preschool	0	781	781
<b><i>Total Restricted</i></b>	<b>0</b>	<b>39,855</b>	<b>39,855</b>
<b><i>Assigned to</i></b>			
Purchases on Order	169,821	0	169,821
<b><i>Unassigned (Deficit)</i></b>	<b>1,662,537</b>	<b>(5,945)</b>	<b>1,656,592</b>
<b><i>Total Fund Balances</i></b>	<b>\$1,838,301</b>	<b>\$34,055</b>	<b>\$1,872,356</b>

**NOTE 4 - ACCOUNTABILITY**

At June 30, 2016, the Alternative School Special Revenue Fund had a deficit fund balance of \$5,945. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the 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 held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

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. Investments may only be made through specified dealers and institutions.

**Deposits:** Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year-end, \$1,875,644 of the Educational Service Center's bank balance of \$2,125,644 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

**Investments:** As of June 30, 2016, the Educational Service Center had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value				
Money Market Account	\$37,936	Less than one year	AAA	5.77%
Negotiable Certificates of Deposit	369,859	Less than five years	AAA	56.22%
Federal Home Loan Bank Bonds	<u>250,030</u>	Less than five years	AA+	38.01%
Total Investments	<u><u>\$657,825</u></u>			

The Educational Service Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Educational Service Center's recurring fair value measurements as of June 30, 2016. All of the Educational Service Center's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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*Interest Rate Risk*

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the Educational Service Center, the Educational Service Center will not directly invest in securities maturing more than five years from the date of investment.

*Credit Risk*

The Educational Service Center's investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated or issued by United States Government sponsored enterprises.

*Concentration of Credit Risk*

The Educational Service Center places no limit on the amount it may invest in any one issuer.

**NOTE 6 - STATE AND LOCAL EDUCATIONAL SERVICE CENTER FUNDING**

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

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

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2016, consisted of accounts, intergovernmental grants, accrued interest and interfund amounts. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<u>Governmental Activities:</u>	
Charges to Local School Districts and Other Governmental Entities	\$123,798
Regional School Improvement Team	52,797
Adult Basic Literacy Education Grant	18,186
Ohio Alternative Education Challenge Grant	11,671
Early Childhood Special Education, IDEA Grant	2,903
Total Intergovernmental Receivable	<u>\$209,355</u>

**NOTE 8 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance at 6/30/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/16</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$78,460	\$0	\$0	\$78,460
Capital Assets Being Depreciated:				
Buildings and Improvements	1,208,487	7,014	0	1,215,501
Furniture, Fixtures and Equipment	1,041,835	3,386	0	1,045,221
Total Capital Assets				
Being Depreciated	2,250,322	10,400	0	2,260,722
Less Accumulated Depreciation:				
Buildings and Improvements	(60,378)	(26,014)	0	(86,392)
Furniture, Fixtures and Equipment	(934,280)	(19,585)	0	(953,865)
Total Accumulated Depreciation	(994,658)	(45,599) *	0	(1,040,257)
Total Capital Assets Being				
Depreciated, Net	1,255,664	(35,199)	0	1,220,465
Governmental Activities				
Capital Assets, Net	<u>\$1,334,124</u>	<u>(\$35,199)</u>	<u>\$0</u>	<u>\$1,298,925</u>

\* Depreciation expense was charged to governmental functions as follows:

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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Instruction:	
Regular	\$1,421
Special	19,175
Adult/Continuing	2,562
Support Services:	
Pupils	7,771
Instructional Staff	4,615
Administration	1,141
Fiscal	1,002
Operation and Maintenance of Plant	396
Central	7,516
Total Depreciation Expense	<u><u>\$45,599</u></u>

**NOTE 9 - RISK MANAGEMENT**

**Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Educational Service Center contracted with School Insurance Consultants, LLC (SIC) for insurance consulting services. The premium paid to SIC for fiscal year 2016 was \$2,500. The Educational Service Center also pays to the awarded insurance agency an insurance premium that is based on types of coverage, limits of coverage, and deductibles that it selects. For the fiscal year, the Educational Service Center contracted with Argonaut Insurance Company for liability, property, and automobile liability insurance coverage and paid its premium to Governmental Underwriters of America, Inc., an agent for Argonaut Insurance Company.

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

**Workers' Compensation**

The Educational Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**Health Care Benefits**

The Educational Service Center participates in the Optimal Health Initiatives Consortium (the "Consortium"), a public entity shared risk pool (Note 14), consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

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

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

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

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

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

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The Educational Service Center’s contractually required contribution to SERS was \$279,831 for fiscal year 2016. Of this amount \$22,111 is reported as an intergovernmental payable.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five 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, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$748,912 for fiscal year 2016. Of this amount \$77,603 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.05581100%	0.04969142%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.05866760%</u>	<u>0.05074331%</u>	
Change in Proportionate Share	<u>0.00285660%</u>	<u>0.00105189%</u>	
Proportionate Share of the Net			
Pension Liability	\$3,347,631	\$14,023,966	\$17,371,597
Pension Expense	\$254,018	\$697,110	\$951,128

At June 30, 2016, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$53,903	\$639,316	\$693,219
Changes in proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	130,914	237,591	368,505
Educational Service Center contributions subsequent to the measurement date	<u>279,831</u>	<u>748,912</u>	<u>1,028,743</u>
Total Deferred Outflows of Resources	<u>\$464,648</u>	<u>\$1,625,819</u>	<u>\$2,090,467</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$110,919</u>	<u>\$1,008,588</u>	<u>\$1,119,507</u>

\$1,028,743 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$1,546	(\$168,207)	(\$166,661)
2018	1,546	(168,207)	(166,661)
2019	1,291	(168,207)	(166,916)
2020	<u>69,515</u>	<u>372,940</u>	<u>442,455</u>
Total	<u>\$73,898</u>	<u>(\$131,681)</u>	<u>(\$57,783)</u>

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$4,641,960	\$3,347,631	\$2,257,698

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
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 commences on fifth anniversary of retirement date.

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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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 no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	10 Year Expected Nominal 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 %	

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. 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, 2015.

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

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$19,480,348	\$14,023,966	\$9,409,783

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2016, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**School Employees Retirement System**

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation 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 2016, this amount was \$23,000. 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 2016, the Educational Service Center's surcharge obligation was \$31,412.

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$45,095, and \$30,034, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**State Teachers Retirement System of Ohio**

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary 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 Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$51,765, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**NOTE 12 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

**Insurance Benefits**

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through American United Life Insurance Company.

**South Central Ohio Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

**Deferred Compensation**

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**NOTE 13 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2016 were as follows:

	Amount Outstanding 6/30/15	Additions	Deductions	Amount Outstanding 6/30/16	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Net Pension Liability:					
STRS	\$12,086,673	\$1,937,293	\$0	\$14,023,966	\$0
SERS	2,824,563	523,068	0	3,347,631	0
Total Net Pension Liability	<u>14,911,236</u>	<u>2,460,361</u>	<u>0</u>	<u>17,371,597</u>	<u>0</u>
Compensated Absences	<u>675,336</u>	<u>184,836</u>	<u>121,104</u>	<u>739,068</u>	<u>122,371</u>
Total Governmental Activities					
Long-Term Obligations	<u>\$15,586,572</u>	<u>\$2,645,197</u>	<u>\$121,104</u>	<u>\$18,110,665</u>	<u>\$122,371</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the General Fund and the Adult Basic Literacy Education Special Revenue Funds. For additional information related to the net pension liability see note 10.

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, AND RELATED ORGANIZATION**

**Jointly Governed Organizations**

*South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG)*

The Educational Service Center is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a council of governments. SCOCARCoG is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and

***South Central Ohio Educational Service Center***

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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instructional functions among member school districts. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers. The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board.

During fiscal year 2016, SCOCARCoG entered into a merger agreement with Metropolitan Educational Technology Association ("META"). Pursuant to an addendum to the agreement, certain liabilities will remain the sole responsibility of SCOCARCoG, and once these remaining liabilities are satisfied, SCOCARCoG will be dissolved and the member districts will become members of META. SCOCARCoG entered into a subcontract agreement with META to provide services to SCOCARCoG, and on behalf of SCOCARCoG, to the member districts. Consistent with the merger agreement and updated bylaws, SCOCARCoG is currently governed by a four person executive governing board. The Educational Service Center paid SCOCARCoG \$61,719 for services provided during the fiscal year.

*Family and Children First Council of Scioto County*

The Family and Children First Council of Scioto County (the "Council") is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Developmental Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local Educational Service Centers with the largest number of pupils residing in the County; a school superintendent representing all other Educational Service Centers in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2016. Continued existence of the Council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. The Council exercises total control over the operations including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Council. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 522 Glenwood Avenue, New Boston, Ohio 45662.

## *South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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### *Coalition of Rural and Appalachian Schools*

The Coalition of Rural and Appalachian Schools (the “Coalition”) is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of 14 members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for School District administrative personnel; gathers data regarding education conditions in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for School District personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Board exercises total control over the operations of the Coalition including budgeting, appropriating, contracting and designating management. Each School District’s degree of control is limited to its representation on the Board. The Educational Service Center paid \$325 to the Coalition for services provided during the fiscal year.

### **Public Entity Shared Risk Pool**

#### *Optimal Health Initiatives Consortium*

The Educational Service Center is a member of the Optimal Health Initiatives Consortium (the “Consortium”), a public entity shared risk pool, consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. The overall objective of the Consortium is to enable its members to purchase employee benefits and related products and services using the Consortium’s economies of scale to create cost-savings. The Council’s business and affairs are managed by an Executive Board of Trustees, consisting of the chairperson of each division’s board of trustees and the chairperson of the Butler Health Plan. The participants pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the fiscal agent, Jennifer Jostworth, CoWorth Financial Services at 10999 Reed Hartman Highway, Suite 304-E, Cincinnati, Ohio 45242.

### **Related Organization**

#### *Scioto County Career Technical Center*

The Scioto County Career Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education. Two representatives are appointed by the Portsmouth City Educational School District and three representatives are appointed by the South Central Ohio Educational Service Center. The Scioto County Career Technical Center exposes students to job training, leading to employment upon graduation from high school. There is no financial benefit/burden relationship between the Scioto County Career Technical Center and the South Central Ohio Educational Service Center, nor can the South Central Ohio Educational Service Center impose their will on the Scioto County Career Technical Center.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**NOTE 15 - INTERFUND ACTIVITY**

As of June 30, 2016, interfund receivables and payables that resulted from various interfund transactions totaled \$35,895 from the General Fund to Nonmajor Governmental Funds.

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

**NOTE 16 - CONTINGENCIES**

**Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2016.

**School Foundation**

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Educational Service Center, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Educational Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the Educational Service Center.

**Pension Changes Between Measurement Date and Report Date**

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant changes is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Educational Service Center's net pension liability is expected to be significant.

**Litigation**

The Educational Service Center is not party to any legal proceedings as of June 30, 2016.

*South Central Ohio Educational Service Center*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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**NOTE 17 – SIGNIFICANT COMMITMENTS**

**Encumbrances**

Encumbrances are commitments related to the unperformed contracts for goods for services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$174,128
Nonmajor Governmental Funds	<u>5,980</u>
Total	<u><u>\$180,108</u></u>

**NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2016, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the Educational Service Center’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

South Central Ohio Educational Service Center

Required Supplementary Information

**South Central Ohio Educational Service Center**  
 Required Supplementary Information  
 Schedule of the Educational Service Centers's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Three Fiscal Years (1) \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Educational Service Center's Proportion of the Net Pension Liability	0.05866760%	0.0558110%	0.0558110%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$3,347,631	\$2,824,563	\$3,318,901
Educational Service Center's Covered-Employee Payroll	\$1,815,207	\$1,671,802	\$1,493,893
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	184.42%	168.95%	222.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is prior fiscal year end.

**South Central Ohio Educational Service Center**  
 Required Supplementary Information  
 Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability  
 State Teachers Retirement System of Ohio  
 Last Three Fiscal Years (1) \*

	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.05074331%	0.04969142%	0.04969142%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$14,023,966	\$12,086,673	\$14,397,566
Educational Service Center's Covered-Employee Payroll	\$5,341,821	\$5,080,377	\$5,024,046
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	262.53%	237.91%	286.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is prior fiscal year end.

**South Central Ohio Educational Service Center**  
**Required Supplementary Information**  
**Schedule of Educational Service Center Contributions**  
**School Employees Retirement System of Ohio**  
**Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$279,831	\$239,244	\$231,712	\$206,755
Contributions in Relation to the Contractually Required Contribution	<u>(279,831)</u>	<u>(239,244)</u>	<u>(231,712)</u>	<u>(206,755)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$1,998,793	\$1,815,207	\$1,671,802	\$1,493,893
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$202,403	\$193,157	\$209,192	\$131,042	\$128,543	\$125,676
<u>(202,403)</u>	<u>(193,157)</u>	<u>(209,192)</u>	<u>(131,042)</u>	<u>(128,543)</u>	<u>(125,676)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,504,858	\$1,536,647	\$1,544,992	\$1,331,727	\$1,308,996	\$1,176,742
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

***South Central Ohio Educational Service Center***  
**Required Supplementary Information**  
**Schedule of Educational Service Center Contributions**  
**State Teachers Retirement System of Ohio**  
**Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$748,912	\$747,855	\$660,449	\$653,126
Contributions in Relation to the Contractually Required Contribution	<u>(748,912)</u>	<u>(747,855)</u>	<u>(660,449)</u>	<u>(653,126)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
Educational Service Center Covered-Employee Payroll	\$5,349,371	\$5,341,821	\$5,080,377	\$5,024,046
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$599,943	\$565,725	\$546,021	\$543,827	\$512,864	\$438,554
<u>(599,943)</u>	<u>(565,725)</u>	<u>(546,021)</u>	<u>(543,827)</u>	<u>(512,864)</u>	<u>(438,554)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,614,946	\$4,351,731	\$4,200,162	\$4,183,285	\$3,945,108	\$3,373,492
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**South Central Ohio Educational Service Center**  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2016

	<u>Budget Amounts</u>		Actual	Variance With Final Budget Over/(Under)
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues:</u></b>				
Intergovernmental	\$950,000	\$944,069	\$944,069	\$0
Investment Earnings	6,000	9,175	9,175	0
Tuition and Fees	7,775,234	8,060,675	8,060,675	0
Customer Sales and Service	1,987,116	2,072,618	2,072,618	0
Contributions and Donations	33,500	31,450	31,450	0
Miscellaneous	0	23,836	23,836	0
<b>Total Revenues</b>	<b>10,751,850</b>	<b>11,141,823</b>	<b>11,141,823</b>	<b>0</b>
<b><u>Expenditures:</u></b>				
Current:				
Instruction:				
Regular	232,809	252,335	252,335	0
Special	5,225,760	5,430,362	5,430,362	0
Adult/Continuing	17,416	26,688	26,688	0
Support Services:				
Pupils	2,460,691	2,569,222	2,569,222	0
Instructional Staff	1,159,681	1,174,796	1,174,796	0
Board of Education	33,524	55,169	55,169	0
Administration	689,256	775,579	775,579	0
Fiscal	320,743	314,543	314,543	0
Operation and Maintenance of Plant	485,132	440,771	440,771	0
Central	151,631	204,693	204,693	0
<b>Total Expenditures</b>	<b>10,776,643</b>	<b>11,244,158</b>	<b>11,244,158</b>	<b>0</b>
Excess of Revenues Under Expenditures	(24,793)	(102,335)	(102,335)	0
<b><u>Other Financing Sources (Uses):</u></b>				
Refund of Prior Year Receipts	7,000	2,238	2,238	0
Advances In	385,000	299,259	299,259	0
Advances Out	(385,000)	(313,300)	(313,300)	0
<b>Total Other Financing Sources (Uses)</b>	<b>7,000</b>	<b>(11,803)</b>	<b>(11,803)</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>(17,793)</b>	<b>(114,138)</b>	<b>(114,138)</b>	<b>0</b>
<b>Fund Balance at Beginning of Year</b>	<b>2,168,062</b>	<b>2,168,062</b>	<b>2,168,062</b>	<b>0</b>
Prior Year Encumbrances Appropriated	278,130	278,130	278,130	0
<b>Fund Balance at End of Year</b>	<b>\$2,428,399</b>	<b>\$2,332,054</b>	<b>\$2,332,054</b>	<b>\$0</b>

See accompanying budgetary notes

*South Central Ohio Educational Service Center*

Budgetary Notes

For the Fiscal Year Ended June 30, 2016

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**NOTE 1 - BUDGETARY PROCESS**

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

The Educational Service 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. Prior to fiscal year-end, the Educational Service Center passed an amended certificate of estimated revenues that reflected actual revenues for the fiscal year.

The Educational Service Center's Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances 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. Prior to fiscal year-end, the Educational Service Center passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

*South Central Ohio Educational Service Center*

Budgetary Notes

For the Fiscal Year Ended June 30, 2016

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The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Investments are recorded at fair value (GAAP basis) rather than cost (budget basis).
4. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).
5. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balances	
	General
GAAP Basis	\$263,917
Adjustments:	
Revenue Accruals	(71,079)
Expenditure Accruals	(113,990)
Increase in Fair Value of Investments - FY 2016	(6,889)
Increase in Fair Value of Investments - FY 2015	2,072
Encumbrances	(174,128)
Advances	(14,041)
Budget Basis	(\$114,138)

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Required by  
*Government Auditing Standards***

South Central Ohio Educational Service Center  
522 Glenwood Avenue  
New Boston, Ohio 45662

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Central Ohio Educational Service Center (the Educational Service Center), Scioto County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated January 25, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Educational Service Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of supporting our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Educational Service Center's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Education  
South Central Ohio Educational Service Center  
Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based Required by  
*Government Auditing Standards*

### **Compliance and Other Matters**

As part of obtaining reasonable assurance whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.  
Chillicothe, Ohio

January 25, 2017



# Dave Yost • Auditor of State

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER**

**SCIOTO COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 28, 2017**