

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**



**Basic Financial Statements**

**June 30, 2014**





# Dave Yost • Auditor of State

Board of Directors  
Warren County Educational Service Center  
1879 Deerfield Road  
Lebanon, Ohio 45036

We have reviewed the *Independent Auditor's Report* of the Warren County Educational Service Center, Warren County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Warren County 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 12, 2015

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## INDEPENDENT AUDITOR'S REPORT

Warren County Educational Service Center  
Warren County  
1879 Deerfield Road  
Lebanon, Ohio 45036

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of the Warren County Educational Service Center (the Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit requires obtaining evidence about financial statements 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 Government'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 to opine on the effectiveness of the Government's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of significant accounting estimates, as well as our evaluation the overall financial statement presentation.

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

### Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregated remaining fund information of the Warren County Educational Service Center, as of June 30, 2014, and the respective changes in the modified cash financial position for the year then ended in accordance with the accounting basis described in Note 2.

## **Accounting Basis**

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

## **Other Matters**

### *Supplemental and Other Information*

We audited to opine on the Center's financial statements that collectively comprise its basic financial statements.

Management's Discussion and Analysis includes tables of net modified cash position, changes in net modified cash position, receipt sources and governmental activities cost of services. These tables provide additional analysis and are not a required part of the basic financial statements.

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

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in the Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*Plattenburg & Associates, Inc.*

Plattenburg & Associates, Inc.  
Cincinnati, Ohio  
December 30, 2014

**Warren County Educational Service Center  
Warren County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)**

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

### **Financial Highlights**

Key financial highlights for 2014 are as follows:

- Net modified cash position of governmental activities increased \$2,163,366 which represents a 40% increase from 2013.
- General receipts accounted for \$1,412,866 in receipts or 6% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$20,352,506 or 94% of total receipts of \$21,765,372.
- The Center had \$19,602,006 in disbursements related to governmental activities; which were offset by program specific charges for services and sales, grants and contributions of \$20,352,506.

### **Overview of the Modified Cash Basis Financial Statements**

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

The *Statement of Net Position – Modified Cash Basis* and the *Statement of Activities – Modified Cash Basis* provide information about the activities of the whole Center, presenting both an aggregate view of the 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 Center's most significant funds with all other non-major funds presented in total in one column. The General Fund is the major fund of the Center.

### **Government-wide Financial Statements – Modified Cash Basis**

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2014?" The Government-wide Financial Statements answer this question. These statements include only net position using the modified cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not collected) and liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

In the Government-wide Financial Statements, the overall financial position of the Center is presented in the following manner:

- **Governmental Activities** – Most of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services, and capital outlay.

**Fund Financial Statements**

The analysis of the Center's major funds are presented in the Fund Financial Statements. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

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



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**The Center as a Whole**

As stated previously, the Statement of Net Position – Modified Cash Basis looks at the Center as a whole. Table 1 provides a summary of the Center’s net modified cash position for fiscal year 2014 compared to fiscal year 2013:

Table 1  
Net Modified Cash Position

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	Governmental Activities	
	2014	2013
Assets:		
Equity in Pooled Cash and Investments	\$7,632,646	\$5,469,280
Total Assets	<u>7,632,646</u>	<u>5,469,280</u>
Net Modified Cash Position:		
Restricted	461,008	451,905
Unrestricted	<u>7,171,638</u>	<u>5,017,375</u>
Total Net Modified Cash Position	<u>\$7,632,646</u>	<u>\$5,469,280</u>

The total net modified cash position of governmental activities increased \$2,163,366 which represents a 40% increase from 2013. The increase in cash was attributed to the increase in charges for services from 2014 to 2013.

A portion of the Center’s net modified cash position, \$461,008 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

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**Warren County Educational Service Center**  
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Table 2 shows the changes in net modified cash position for fiscal year 2014 compared to fiscal year 2013.

Table 2  
Changes in Net Modified Cash Position

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$19,475,119	\$18,251,150
Operating Grants and Contributions	877,387	727,134
General Receipts:		
Grants and Entitlements	1,107,340	1,011,050
Other Receipts	305,526	165,743
Total Cash Receipts	<u>21,765,372</u>	<u>20,155,077</u>
Cash Disbursements:		
Instruction	8,143,408	8,189,217
Support Services:		
Pupil and Instructional Staff	8,027,089	7,452,537
School Administrative, General		
Administration, Fiscal and Business	2,542,482	2,442,516
Operations and Maintenance	208,660	197,844
Pupil Transportation	156,395	197,175
Central	255,101	277,187
Operation of Non-Instructional Services	5,300	5,378
Capital Outlay	263,571	48,086
Total Cash Disbursements	<u>19,602,006</u>	<u>18,809,940</u>
Change in Net Modified Cash Position	2,163,366	1,345,137
Net Modified Cash Position - Beginning of Year	<u>5,469,280</u>	<u>4,124,143</u>
Net Modified Cash Position - End of Year	<u><u>\$7,632,646</u></u>	<u><u>\$5,469,280</u></u>

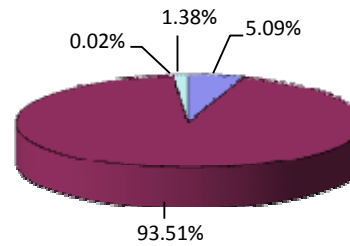
**Governmental Activities**

Over the past several fiscal years, the Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services and sales, and intergovernmental revenue.

The Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. The Center relies on this state funding to operate at the current levels of service.

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Receipt Sources	2014	Percent of Total
General Grants	\$1,107,340	5.09%
Program Receipts	20,352,506	93.51%
Investment Earnings	3,894	0.02%
Other Receipts	301,632	1.38%
	<u>\$21,765,372</u>	<u>100.00%</u>



Instruction comprises 41.5% of governmental program disbursements. Support services disbursements were 58.5% of governmental program disbursements.

The first column of the Statement of Activities – Modified Cash Basis lists the first column lists the major activities of the Center. The next column identifies the costs of providing these services. The next two columns of the Statement entitled Program Receipts identify, in general, the source of the receipts. The amounts are either paid by people who are directly charged for the service or grants and contributions received by the Center that must be used to provide a specific service. A comparison between the total cost of services and the net cost is presented in Table 3. That is, it identifies the cost of these services supported by restricted State entitlements and investment earnings.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Cash Disbursements:				
Instruction	\$8,143,408	\$8,189,217	(\$357,943)	(\$41,793)
Support Services:				
Pupil and Instructional Staff	8,027,089	7,452,537	511,688	214,973
School Administrative, General Administration, Fiscal and Business	2,542,482	2,442,516	554,185	73,317
Operations and Maintenance	208,660	197,844	59,837	5,900
Pupil Transportation	156,395	197,175	(5,698)	(35,331)
Central	255,101	277,187	(2,357)	971
Operation of Non-Instructional Services	5,300	5,378	(5,300)	(1,607)
Extracurricular Activities	0	0	5,669	0
Capital Outlay	263,571	48,086	(9,581)	(48,086)
Total Cash Disbursements	<u>\$19,602,006</u>	<u>\$18,809,940</u>	<u>\$750,500</u>	<u>\$168,344</u>

**Warren County Educational Service Center  
Warren County, Ohio  
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**The Center's Funds**

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

The Center has one major governmental fund: the General Fund. Assets of this fund comprised \$7,155,638 (94%) of the total \$7,632,646 in governmental funds' assets.

**General Fund:** Fund modified cash balance at June 30, 2014 was \$7,155,638, an increase from 2013 of \$2,153,075, which was mainly due to an increase in charges for services and a decrease in instruction disbursements.

**General Fund Budgeting Highlights**

Under Ohio law, education service centers are not required to prepare a budget and the board is not required to approve revenues or adopt appropriations. Budgetary information is not presented in the basic financial statements.

**Capital Assets and Debt Administration**

**Capital Assets**

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

**Debt**

At June 30, 2014, the Center had no general obligation debt outstanding.

**For the Future**

Warren County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Educational Service Center to provide a quality education for the students of Warren County.

All other income is derived from direct invoicing for services and grants. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002, the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2006 and the new court may be called upon to address the issue. At this time, there can be no reasonable estimate of the decision or its impact on school funding.

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Warren County, Ohio  
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As of the date of these financial statements, Center is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Alleyn Unversaw, Treasurer of Warren County Educational Service Center, 1879 Deerfield Road, Lebanon, Ohio 45036.

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Warren County Educational Service Center  
Statement of Net Position - Modified Cash Basis  
June 30, 2014

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	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	<u>\$7,632,646</u>
Total Assets	<u>7,632,646</u>
Net Modified Cash Position:	
Restricted for:	
Other Grants	380,500
District School Bus Driver Training	76,158
Other Purposes	4,350
Unrestricted	<u>7,171,638</u>
Total Net Modified Cash Position	<u>\$7,632,646</u>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center  
Statement of Activities - Modified Cash Basis  
For the Fiscal Year Ended June 30, 2014

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Modified Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Total
Governmental Activities:				
Instruction:				
Regular	\$2,606,092	\$2,058,117	\$123,150	(\$424,825)
Special	5,526,908	5,593,683	0	66,775
Other	10,408	10,515	0	107
Support Services:				
Pupil	7,623,530	7,539,284	593,691	509,445
Instructional Staff	403,559	377,088	28,714	2,243
General Administration	35,080	35,441	0	361
School Administration	1,919,761	2,018,241	0	98,480
Fiscal	551,054	982,763	23,258	454,967
Business	36,587	36,964	0	377
Operations and Maintenance	208,660	268,497	0	59,837
Pupil Transportation	156,395	48,555	102,142	(5,698)
Central	255,101	246,312	6,432	(2,357)
Operation of Non-Instructional Services	5,300	0	0	(5,300)
Extracurricular Activities	0	5,669	0	5,669
Capital Outlay	263,571	253,990	0	(9,581)
Totals	<u>\$19,602,006</u>	<u>\$19,475,119</u>	<u>\$877,387</u>	<u>\$750,500</u>

General Receipts:	
Grants and Entitlements not Restricted	1,107,340
Unrestricted Contributions	275
Investment Earnings	3,894
Other Receipts	301,357
Total General Receipts	<u>1,412,866</u>
Change in Net Modified Cash Position	2,163,366
Net Modified Cash Position - Beginning of Year	<u>5,469,280</u>
Net Modified Cash Position - End of Year	<u><u>\$7,632,646</u></u>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center  
Statement of Assets and Fund Balances - Modified Cash Basis  
Governmental Funds  
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	\$7,155,638	\$477,008	\$7,632,646
Total Assets	<u>7,155,638</u>	<u>477,008</u>	<u>7,632,646</u>
Fund Modified Cash Balances:			
Restricted	0	461,008	461,008
Committed	48,607	16,000	64,607
Assigned	358,586	0	358,586
Unassigned	6,748,445	0	6,748,445
Total Fund Modified Cash Balances	<u>\$7,155,638</u>	<u>\$477,008</u>	<u>\$7,632,646</u>

See accompanying notes to the basic financial statements.



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

	General	Other Governmental Funds	Total Governmental Funds
Receipts:			
Tuition and Fees	\$3,185,855	\$40,450	\$3,226,305
Investment Earnings	3,894	0	3,894
Intergovernmental	1,107,339	877,387	1,984,726
Extracurricular Activities	5,669	0	5,669
Charges for Services	15,627,066	616,077	16,243,143
Other Receipts	214,669	86,966	301,635
<b>Total Receipts</b>	<b>20,144,492</b>	<b>1,620,880</b>	<b>21,765,372</b>
Cash Disbursements:			
Current:			
Instruction:			
Regular	2,457,837	148,255	2,606,092
Special	5,526,908	0	5,526,908
Other	10,408	0	10,408
Support Services:			
Pupil	6,456,542	1,166,988	7,623,530
Instructional Staff	344,044	59,515	403,559
General Administration	35,080	0	35,080
School Administration	1,919,761	0	1,919,761
Fiscal	504,160	46,894	551,054
Business	36,587	0	36,587
Operations and Maintenance	208,660	0	208,660
Pupil Transportation	381	156,014	156,395
Central	240,940	14,161	255,101
Operation of Non-Instructional Services	0	5,300	5,300
Capital Outlay	196,899	66,672	263,571
<b>Total Cash Disbursements</b>	<b>17,938,207</b>	<b>1,663,799</b>	<b>19,602,006</b>
<b>Excess of Receipts Over (Under) Cash Disbursements</b>	<b>2,206,285</b>	<b>(42,919)</b>	<b>2,163,366</b>
Other Financing Sources (Uses):			
Advances In	216,763	159,925	376,688
Advances (Out)	(159,925)	(216,763)	(376,688)
Transfers In	0	110,048	110,048
Transfers (Out)	(110,048)	0	(110,048)
<b>Total Other Financing Sources (Uses)</b>	<b>(53,210)</b>	<b>53,210</b>	<b>0</b>
<b>Net Change in Fund Modified Cash Balance</b>	<b>2,153,075</b>	<b>10,291</b>	<b>2,163,366</b>
<b>Fund Modified Cash Balance - Beginning of Year</b>	<b>5,002,563</b>	<b>466,717</b>	<b>5,469,280</b>
<b>Fund Modified Cash Balance - End of Year</b>	<b>\$7,155,638</b>	<b>\$477,008</b>	<b>\$7,632,646</b>

See accompanying notes to the basic financial statements.

Warren County Educational Service Center  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
June 30, 2014

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	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$19,342</u>
Total Assets	<u><u>19,342</u></u>
Net Modified Cash Position:	
Unrestricted	<u>19,342</u>
Total Net Modified Cash Position	<u><u>\$19,342</u></u>

See accompanying notes to the basic financial statements.

**Warren County Educational Service Center  
Warren County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014**

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**Note 1 - Description of the Center**

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The Warren County Educational Service Center (the "Center") is located in Lebanon, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Carlisle, Kings, Little Miami and Wayne Local School Districts, as well as the Springboro, Lebanon, Franklin and Middletown City School Districts. Other school districts outside Warren County are served on an individual contract basis for various services. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Center is staffed by 99 classified, 161 certified, and two administrative employees providing educational service to 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 Center consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities.

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

During FY2014, the Center was the fiscal agent for the Warren County Family and Children First Council (the FCFC). The FCFC is a separate agency which provides services to qualified Warren County families. The Center maintains Council funds in a separate Agency Fund.

As of June 30, 2014, the Center served as sponsor and fiscal agent for charter schools established under chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of the Center.

The Center is associated with three jointly governed organizations. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), and the Southwest Ohio Council of Governments. Information about these organizations is presented in Note 7 to the basic financial statements.

**Warren County Educational Service Center  
Warren County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014**

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**Note 2 – Summary of Significant Accounting Policies**

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These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

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

**Fund Accounting**

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the category governmental.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Center are financed. Governmental funds focus 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.

The following is the Center's major governmental fund:

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

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

**Basis of Presentation**

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

The fund financial statements report more detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

**Equity in Pooled Cash and Investments**

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

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2014. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2014.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Investment earnings during the fiscal year amounted to \$3,894 credited to the general fund.

**Inventory and Prepaid Items**

The Center reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the modified cash basis of accounting.

**Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the modified cash basis of accounting.

**Warren County Educational Service Center  
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**Unpaid Vacation and Sick Leave**

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

**Interfund Activity**

During the course of normal operations, the Center has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the Center at the time of the transaction.

**Employer Contributions to Cost-Sharing Plans**

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**Budgetary Process**

Under Ohio law, education service centers are not required to prepare a budget and the board is not required to approve revenues or adopt appropriations. Budgetary information is not presented in the basic financial statements.

**Fund Modified Cash Balance**

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the Center classifies its fund modified cash balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the Center's formal purchasing procedure by the Treasurer.

Unassigned – residual fund modified cash balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit cash balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

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The Center considers committed, assigned, and unassigned fund modified cash balances, respectively, to be spent when disbursements have incurred for purposes for which any of the unrestricted fund modified cash balance classifications could be used.

**Net Modified Cash Position**

Net modified cash position are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net modified cash position are available.

**Note 3 - Equity in Pooled Cash and Investments**

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The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the statement of net position – modified cash basis and balance sheet – modified cash basis as "Equity in Pooled Cash and Cash Equivalents."

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

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- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

### **Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2014, \$6,571,111 of the Center's bank balance of \$7,083,436 was exposed to custodial risk because it was not all FDIC insured.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

### **Investments**

Investments are reported at fair value. As of June 30, 2014, the Center had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):



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Investment Type	Fair Value	Weighted Average Maturity (Years)
STAR Ohio	\$405,188	0.14
Portfolio Weighted Average Maturity		0.14

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the Center’s allocations of investments (cash equivalents) were as follows: STAROhio (100%).

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

**Note 4 - Pension Plans**

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**School Employees Retirement System of Ohio**

Plan Description

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Center’s contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$561,003, \$612,264, and \$576,842, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

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**State Teachers Retirement System of Ohio**

Plan Description

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary

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of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 11% of covered payroll for members and 14% for employers. The Center's contributions to STRS for the years ended June 30, 2014, 2013, and 2012 were \$1,119,763, \$1,129,888, and \$1,126,556, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

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Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of Ohio or the State Teachers Retirement System of Ohio use Social Security. As of June 30, 2014, two board members have elected Social Security. The Center's liability is 6.2% of wages paid.

**Note 5 - Post Employment Benefits**

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**School Employees Retirement System of Ohio**

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76%. Center contributions for the years ended June 30, 2014, 2013 and 2012 were \$30,454, \$32,363, and \$31,316, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2014, the health care allocation was .14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center contributions assigned to health care for the years ended June 30, 2014, 2013, and 2012

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were \$5,610, \$69,997, and \$58,920, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

### **State Teachers Retirement System of Ohio**

#### Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

#### Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014, 2013 and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. The Center contributions for the years ended June 30, 2014, 2013, and 2012 were \$79,983, \$80,706, and \$80,468, 100% has been contributed for fiscal years 2014, 2013 and 2012.

### **Note 6 – Employee Benefits**

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#### **Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from Board Policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. They may also earn vacation bonus days as specified in Board Policy. Vacation days may not be carried over. All full-time certificated and classified employees are entitled to three days personal leave

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per year, which does not accumulate from one year to the next. Teachers do not earn vacation time. Eleven and twelve month certified staff earn three weeks and four weeks, respectively. They may also earn vacation bonus days as specified in Board Policy, if hired prior to July 1, 1997. New employees hired after July 1, 1997 are not entitled to vacation bonus days.

Teachers, administrators and classified employees earn sick leave at the rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (a maximum of 60 days).

**Health Care Benefits**

The Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through UnumProvident.

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 8).

The Center provides dental insurance to full-time employees through Delta Dental.

**Note 7 – Jointly Governed Organizations**

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**Southwest Ohio Computer Association**

The Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. Financial information can be obtained from the fiscal agent, Butler Tech, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

**Southwestern Ohio Educational Purchasing Council**

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 129 school districts, boards of developmental disabilities, and educational service centers in 18 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools which includes medical insurance, dental insurance, life insurance, and workers compensation. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken S. Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377-1171.

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**Southwest Ohio Council of Governments**

The Southwest Ohio Council of Governments (Council) was created pursuant to chapter 167 of the Ohio Revised Code by agreement of its members. The Council was formed in 2012 by the Center and the Warren County Board of Commissioners. The Council's purpose is to provide substitute teaching services for school districts in Warren and Butler Counties.

The Center serves as the Fiscal Officer for the Council. The Council's funds are maintained separately from the Center's funds.

**Note 8 – Risk Management**

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The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2014, the Center contracted with Governmental Underwriters of America for property. Coverages provided are as follows:

Building and Contents (\$1,000 deductible)	\$4,138,850
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists Liability (\$1,000 deductible)	1,000,000
<i>General Liability:</i> Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Fire Damage Limit - Any One Event	500,000
<i>Employee Benefits Liability:</i> Each Occurrence	1,000,000
Aggregate Limit	3,000,000
<i>Employer's Liability:</i> Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
<i>Excess Liability – Umbrella Form</i> Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

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For fiscal year 2014, the Center also participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 8). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

For fiscal year 2014, the Center also participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 8). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting, Inc. provides administrative, cost control and actuarial services to the GRP.

**Note 9 - State Funding**

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The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by \$35.00 multiplied by a proration factor. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.



Warren County Educational Service Center  
 Warren County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2014

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**Note 10 – Contingencies**

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**Grants**

The 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 of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2014.

**Litigation**

The Center's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

**Note 11 – Interfund Transactions**

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Interfund transactions at June 30, 2014, consisted of the following transfers in and transfers out, advances in and advances out:

	Transfers		Advances	
	In	Out	In	Out
General Fund	\$0	\$110,048	\$216,763	\$159,925
Other Governmental Funds	110,048	0	159,925	216,763
Total All Funds	<u>\$110,048</u>	<u>\$110,048</u>	<u>\$376,688</u>	<u>\$376,688</u>

Interfund balances/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

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**Warren County Educational Service Center  
Warren County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2014**

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**Note 12 – Fund Modified Cash Balances**

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

Fund Modified Cash Balances	General	Other Governmental Funds	Total
Restricted for:			
Other Grants	\$0	\$380,500	\$380,500
District School Bus Driver Training	0	76,158	76,158
Alternative School	0	4,350	4,350
Total Restricted	0	461,008	461,008
Committed to:			
Termination Benefits	48,607	0	48,607
WCESC Scholarship	0	16,000	16,000
Total Committed	48,607	16,000	64,607
Assigned to:			
Encumbrances	287,822	0	287,822
Public School Support	70,764	0	70,764
Total Assigned	358,586	0	358,586
Unassigned (Deficit)	6,748,445	0	6,748,445
Total Fund Modified Cash Balance	\$7,155,638	\$477,008	\$7,632,646

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**WARREN COUNTY EDUCATIONAL SERVICE CENTER**



**Yellow Book Report**

**June 30, 2014**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Warren County Educational Service Center  
Warren County  
1879 Deerfield Road  
Lebanon, Ohio 45036

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of the Warren County Educational Service Center (the Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 30, 2014, wherein we noted the Center presented financial statements on the modified cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America, as disclosed in Note 2.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. We consider the deficiency described in the accompany schedule of findings and responses to be a material weakness: Finding 2014-001.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 2014-002.

## Center's Response to Findings

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plattenburg & Associates, Inc.*

Plattenburg & Associates, Inc.  
Cincinnati, Ohio  
December 30, 2014

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2014**

**Finding 2014 – 001 – Material Weakness Related to the Receipt Process**

During the course of our audit, we noted the entire receipt process of charges for services, tuition and other receipts was lacking segregation of duties. The same employee who created the receipt would also take the deposit to the bank with no separation of duties. The receipt process does not document when checks are received by the Center. This makes it difficult to determine if the checks are being deposited in a timely fashion. We recommend the Center implement segregation of duties over the receipt process and document the date a check is received on the corresponding invoice when it is stamped and keep a daily log of checks received.

**Officials' Response:**

The Center will implement separation of duties related to the receipt process. The Center will also begin documenting the date checks are received.

**Finding 2014 – 002 – Noncompliance – GAAP Reporting**

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

Ohio Administrative Code Section 117-2-03(B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). For fiscal year 2014, the Center prepared financial statements on the modified cash basis, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows, deferred outflows, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Center's ability to evaluate and monitor the overall financial condition of the Center.

We recommend the Center prepare its financial statements on the GAAP basis of accounting.

**Officials' Response:**

The Center has considered both the cost and benefits to filing GAAP statements in lieu of the currently used modified cash basis statements. At this time, we believe the cost savings and benefits to filing modified cash basis statements outweigh the costs and benefits to filing GAAP statements. The Center will continue to evaluate the costs and benefits to filing modified cash basis statements annually in the event that a change needs to be made in the future.



# Dave Yost • Auditor of State

WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 24, 2015