



Dave Yost • Auditor of State

**MIAMI COUNTY EDUCATIONAL SERVICE CENTER
MIAMI COUNTY**

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MIAMI COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Miami County Educational Service Center
Miami County
2000 West Stanfield Road
Troy, Ohio 45373

To the Board of Education:

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 Miami County Educational Service Center, Miami County, Ohio (the Center), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Miami County Educational Service Center, Miami County, Ohio, as of June 30, 2015 and 2014, and the respective changes in financial position thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in fiscal year 2015 Note 3 to the financial statements, during the year ended June 30, 2015, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual for the General Fund present additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2016, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

April 25, 2016

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Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The discussion and analysis of the Miami County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2015. 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 the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- The Educational Service Center experienced a large turnover in staffing as experienced employees left for positions with other School Districts. These positions were replaced with less experienced staff and the Educational Service Center was able to increase overall staffing levels.

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 Miami County 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 most significant funds with all other nonmajor funds presented in total in one column.

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

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

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

These two statements report the Educational Service Center's net position and changes in that position. This 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, and some not.

In the statement of net position and the statement of activities, the Educational Service Center only reports governmental activities. Governmental activities are the activities where all of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, and operation and maintenance of plant.

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. The Educational Service Center's only major governmental fund is the General Fund.

Governmental Funds

All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

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 year 2015 compared to fiscal year 2014.

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Table 1
Net Position

| | 2015 | Restated 2014 | Change |
|---------------------------------------|-----------------------|-----------------------|--------------------|
| Assets: | | | |
| Current and Other Assets | \$4,476,541 | \$5,262,599 | (\$786,058) |
| Capital Assets, Net | <u>1,192,676</u> | <u>1,217,450</u> | <u>(24,774)</u> |
| Total Assets | <u>5,669,217</u> | <u>6,480,049</u> | <u>(810,832)</u> |
| Deferred Outflows of Resources | | | |
| Pension | <u>1,473,714</u> | <u>1,237,163</u> | <u>236,551</u> |
| Liabilities: | | | |
| Other Liabilities | 1,797,839 | 1,764,492 | 33,347 |
| Long-Term Liabilities: | | | |
| Net Pension Liability | 19,986,390 | 23,717,876 | (3,731,486) |
| Other Amounts | 587,766 | 564,136 | 23,630 |
| Total Liabilities | <u>22,371,995</u> | <u>26,046,504</u> | <u>(3,674,509)</u> |
| Deferred Inflows of Resources | | | |
| Pension | <u>3,571,589</u> | <u>0</u> | <u>3,571,589</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | 1,161,300 | 1,177,599 | (16,299) |
| Restricted | 2,979 | 2,485 | 494 |
| Unrestricted | <u>(19,964,932)</u> | <u>(19,509,376)</u> | <u>(455,556)</u> |
| Total Net Position | <u>(\$18,800,653)</u> | <u>(\$18,329,292)</u> | <u>(\$471,361)</u> |

During 2015, the Educational Service Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the 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.

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.

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Under the new standards required by GASB 68, the net pension liability equals 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.

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.

As a result of implementing GASB 68, the Educational Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$4,151,421 to (\$18,329,292).

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Current and other assets decreased due to a decrease in intergovernmental receivables. The decrease was due to school district's paying for services provided prior to fiscal year-end and not being picked up as a receivable. Other liabilities increased because of an increase in accrued wages. Accrued wages increased due to an increase in staff as a result of more services being offered to school district cliental. Long-term liabilities rose from the addition of compensated absences payable during fiscal year 2015. Unrestricted net position decreased \$455,556, as a result of a decrease in net pension liability stemming from pension investment revenues exceeding expectations.

Net investment in capital assets decreased due to depreciation expense exceeding current year additions.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2015 and 2014.

Table 2
Changes in Net Position

| | 2015 | 2014 | Change |
|------------------------------------|-----------------------|-----------------------|--------------------|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | \$12,255,720 | \$13,555,674 | (\$1,299,954) |
| Operating Grants and Contributions | 265,356 | 267,128 | (1,772) |
| Total Program Revenues | <u>12,521,076</u> | <u>13,822,802</u> | <u>(1,301,726)</u> |
| General Revenues: | | | |
| Grants and Entitlements not | | | |
| Restricted to Specific Programs | 429,848 | 480,699 | (50,851) |
| Investment Earnings | 14,591 | 11,907 | 2,684 |
| Gifts and Donations | 1,970 | 21,785 | (19,815) |
| Miscellaneous | 222,231 | 145,703 | 76,528 |
| Total General Revenues | <u>668,640</u> | <u>660,094</u> | <u>8,546</u> |
| Total Revenues | <u>13,189,716</u> | <u>14,482,896</u> | <u>(1,293,180)</u> |
| Program Expenses: | | | |
| Instruction: | | | |
| Regular | 360,236 | 547,743 | (187,507) |
| Special | 8,080,433 | 8,294,833 | (214,400) |
| Support Services: | | | |
| Pupils | 3,151,328 | 3,197,166 | (45,838) |
| Instructional Staff | 379,932 | 35,346 | 344,586 |
| Board of Education | 15,212 | 14,357 | 855 |
| Administration | 1,170,905 | 1,248,285 | (77,380) |
| Fiscal | 232,278 | 231,877 | 401 |
| Business | 162,708 | 205,217 | (42,509) |
| Operation and Maintenance of Plant | 104,430 | 93,791 | 10,639 |
| Pupil Transportation | 0 | 98 | (98) |
| Central | 262 | 795 | (533) |
| Extracurricular Activities | 720 | 534 | 186 |
| Interest and Fiscal Charges | 2,633 | 4,003 | (1,370) |
| Total Expenses | <u>13,661,077</u> | <u>13,874,045</u> | <u>(\$212,968)</u> |
| Change in Net Position | (471,361) | 608,851 | |
| Net Position at Beginning of Year | (18,329,292) | N/A | |
| Net Position at End of Year | <u>(\$18,800,653)</u> | <u>(\$18,329,292)</u> | |

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,237,163 for governmental activities computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$891,046. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | |
|---|-------------------------|
| Total 2015 program expenses under GASB 68 | \$13,661,077 |
| Pension expense under GASB 68 | (891,046) |
| 2015 contractually required contribution | <u>1,287,494</u> |
| Adjusted 2015 program expenses | 14,057,525 |
| Total 2014 program expenses under GASB 27 | <u>13,874,045</u> |
| Change in program expenses not related to pension | <u><u>\$183,480</u></u> |

In total, revenues decreased due to the narrower scope of services provided, which caused a decrease in revenue from the client school districts received through foundation and billings.

Expenses decreased \$212,968 from the previous year. The Educational Service Center experienced a large turnover in staffing as experienced employees left for positions with other School Districts and they were replaced with less experienced staff.

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 14. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,189,093 and expenditures of \$14,009,661. The net change in fund balance for the fiscal year in the General Fund was a decrease of \$820,732, this was due to a decrease in revenue due to the narrowing of services provided to client school districts.

Capital Assets

At the end of fiscal year 2015, the Educational Service Center had \$1,192,676 invested in land, buildings and improvements, and furniture and equipment.

For more information on capital assets, refer to Note 8 of the basic financial statements.

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Debt Administration

At June 30, 2015, the Educational Service Center had \$31,376 in total outstanding debt consisting of capital leases. Refer to Notes 13 and 14 of the basic financial statements for additional information.

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 questions about this report or need additional financial information, contact Cindy Hale, Treasurer, at Miami County Educational Service Center, 2000 West Stanfield Rd, Troy, Ohio, 45373-2987 or email at Cindy.Hale@miami.k12.oh.us.

Miami County Educational Service Center

Statement of Net Position

June 30, 2015

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$4,429,066 |
| Accrued Interest Receivable | 2,212 |
| Accounts Receivable | 18,539 |
| Intergovernmental Receivable | 16,820 |
| Materials and Supplies Inventory | 4,449 |
| Prepaid Items | 5,455 |
| Nondepreciable Capital Assets | 119,608 |
| Depreciable Capital Assets, Net | 1,073,068 |
| Total Assets | <u>5,669,217</u> |
| Deferred Outflows of Resources: | |
| Pension | <u>1,473,714</u> |
| Liabilities: | |
| Accounts Payable | 4,909 |
| Accrued Wages and Benefits Payable | 1,453,300 |
| Matured Compensated Absences Payable | 7,401 |
| Accrued Interest Payable | 150 |
| Intergovernmental Payable | 332,079 |
| Long-Term Liabilities: | |
| Due Within One Year | 60,110 |
| Due in More Than One Year | |
| Net Pension Liability (See Note 10) | 19,986,390 |
| Other Amounts | 527,656 |
| Total Liabilities | <u>22,371,995</u> |
| Deferred Inflows of Resources: | |
| Pension | <u>3,571,589</u> |
| Net Position: | |
| Net Investment in Capital Assets | 1,161,300 |
| Restricted for: | |
| Athletic Fund | 2,979 |
| Unrestricted (Deficit) | (19,964,932) |
| Total Net Position | <u><u>(\$18,800,653)</u></u> |

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2015

| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--|---------------------|-------------------------|---------------------------------------|--|
| | | Charges for Services | Operating Grants and Contributions | Total Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$360,236 | \$329,887 | \$0 | (\$30,349) |
| Special | 8,080,433 | 7,257,958 | 231,923 | (590,552) |
| Support Services: | | | | |
| Pupils | 3,151,328 | 2,854,259 | 29,833 | (267,236) |
| Instructional Staff | 379,932 | 332,349 | 0 | (47,583) |
| Board of Education | 15,212 | 13,423 | 0 | (1,789) |
| Administration | 1,170,905 | 1,032,093 | 3,600 | (135,212) |
| Fiscal | 232,278 | 210,843 | 0 | (21,435) |
| Business | 162,708 | 146,680 | 0 | (16,028) |
| Operation and Maintenance of Plant | 104,430 | 77,014 | 0 | (27,416) |
| Central | 262 | 0 | 0 | (262) |
| Extracurricular Activities | 720 | 1,214 | 0 | 494 |
| Interest and Fiscal Charges | 2,633 | 0 | 0 | (2,633) |
| Total Governmental Activities | <u>\$13,661,077</u> | <u>\$12,255,720</u> | <u>\$265,356</u> | <u>(1,140,001)</u> |
| General Revenues: | | | | |
| Grants and Entitlements not Restricted to Specific Programs | | | | 429,848 |
| Investment Earnings | | | | 14,591 |
| Gifts and Donations | | | | 1,970 |
| Miscellaneous | | | | 222,231 |
| Total General Revenues | | | | <u>668,640</u> |
| Change in Net Position | | | | (471,361) |
| Net Position at Beginning of Year - Restated (see Note 3) | | | | <u>(18,329,292)</u> |
| Net Position at End of Year | | | | <u><u>(\$18,800,653)</u></u> |

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2015

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------|-----------------------------------|--------------------------------|
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,426,021 | \$2,979 | \$4,429,000 |
| Accrued Interest Receivable | 2,212 | 0 | 2,212 |
| Accounts Receivable | 18,539 | 0 | 18,539 |
| Intergovernmental Receivable | 16,820 | 0 | 16,820 |
| Materials and Supplies Inventory | 4,449 | 0 | 4,449 |
| Prepaid Items | 5,455 | 0 | 5,455 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 66 | 0 | 66 |
| Total Assets | <u>\$4,473,562</u> | <u>\$2,979</u> | <u>\$4,476,541</u> |
| Liabilities and Fund Balances: | | | |
| Liabilities: | | | |
| Accounts Payable | \$4,909 | \$0 | \$4,909 |
| Accrued Wages and Benefits Payable | 1,453,300 | 0 | 1,453,300 |
| Matured Compensated Absences Payable | 7,401 | 0 | 7,401 |
| Intergovernmental Payable | 331,443 | 636 | 332,079 |
| Total Liabilities | <u>1,797,053</u> | <u>636</u> | <u>1,797,689</u> |
| Deferred Inflows of Resources: | | | |
| Unavailable Revenue | 1,485 | 0 | 1,485 |
| Fund Balances: | | | |
| Nonspendable | 9,970 | 0 | 9,970 |
| Restricted | 400 | 2,979 | 3,379 |
| Committed | 232,887 | 0 | 232,887 |
| Assigned | 23,573 | 0 | 23,573 |
| Unassigned (Deficit) | 2,408,194 | (636) | 2,407,558 |
| Total Fund Balances | <u>2,675,024</u> | <u>2,343</u> | <u>2,677,367</u> |
| Total Liabilities, Deferred Inflows and Fund Balances | <u>\$4,473,562</u> | <u>\$2,979</u> | <u>\$4,476,541</u> |

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2015

Total Governmental Fund Balances \$2,677,367

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 | 119,608 | |
| | Building and Improvements | 1,171,991 | |
| | Furniture and Equipment | 582,534 | |
| | Accumulated Depreciation | (681,457) | |
| | | | |
| Total | | | 1,192,676 |

Some of the Education 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 reported as unavailable revenue in the funds.

| | |
|---------------------|-------|
| Investment Earnings | 1,485 |
|---------------------|-------|

The net position 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 | 1,473,714 | |
| | Deferred Inflows - Pension | (3,571,589) | |
| | Net Pension Liability | (19,986,390) | |
| | | | |
| Total | | | (22,084,265) |

In the Statement of Activities, interest is accrued on outstanding leases, whereas in governmental funds, an interest expenditure is reported when due.

| | |
|-----------------------------------|-------|
| Accrued Interest on Capital Lease | (150) |
|-----------------------------------|-------|

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

| | | | |
|--------------|----------------------|-----------|------------------|
| | Compensated Absences | (556,390) | |
| | Capital Leases | (31,376) | |
| | | | |
| Total | | | (587,766) |

| | |
|--|-----------------------|
| Net Position of Governmental Activities | (\$18,800,653) |
|--|-----------------------|

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------|-----------------------------------|--------------------------------|
| Revenues: | | | |
| Intergovernmental | \$581,656 | \$113,548 | \$695,204 |
| Investment Earnings | 13,968 | 0 | 13,968 |
| Tuition and Fees | 12,226,949 | 0 | 12,226,949 |
| Gifts and Donations | 4,970 | 0 | 4,970 |
| Charges for Services | 24,557 | 0 | 24,557 |
| Extracurricular | 0 | 1,214 | 1,214 |
| Miscellaneous | 222,231 | 0 | 222,231 |
| Total Revenues | <u>13,074,331</u> | <u>114,762</u> | <u>13,189,093</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 373,182 | 0 | 373,182 |
| Special | 8,219,593 | 79,988 | 8,299,581 |
| Support Services: | | | |
| Pupils | 3,227,739 | 29,790 | 3,257,529 |
| Instructional Staff | 379,087 | 0 | 379,087 |
| Board of Education | 15,212 | 0 | 15,212 |
| Administration | 1,163,673 | 3,600 | 1,167,273 |
| Fiscal | 236,151 | 0 | 236,151 |
| Business | 165,529 | 0 | 165,529 |
| Operation and Maintenance of Plant | 104,249 | 0 | 104,249 |
| Extracurricular Activities | 0 | 720 | 720 |
| Debt Service: | | | |
| Principal Retirement | 8,475 | 0 | 8,475 |
| Interest and Fiscal Charges | 2,673 | 0 | 2,673 |
| Total Expenditures | <u>13,895,563</u> | <u>114,098</u> | <u>14,009,661</u> |
| Excess of Revenues Over (Under) Expenditures | (821,232) | 664 | (820,568) |
| Other Financing Sources: | | | |
| Proceeds from Sale of Capital Assets | <u>500</u> | <u>0</u> | <u>500</u> |
| Net Change in Fund Balances | (820,732) | 664 | (820,068) |
| Fund Balances at Beginning of Year | <u>3,495,756</u> | <u>1,679</u> | <u>3,497,435</u> |
| Fund Balances at End of Year | <u>\$2,675,024</u> | <u>\$2,343</u> | <u>\$2,677,367</u> |

See Accompanying Notes to the Basic Financial Statements

Miami County 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, 2015

Net Change in Fund Balances - Total Governmental Funds (\$820,068)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|----------|----------|
| Capital Assets Additions | 41,216 | |
| Depreciation Expense | (61,781) | |
| Excess of depreciation expense over capital outlay | | (20,565) |

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital assets account in the Statement of Net Position and offset against the proceeds from the sale of capital assets resulting in a gain or loss on the sale of capital assets in the Statement of Activities.

| | | |
|--------------------------------------|---------|---------|
| Proceeds from sale of capital assets | (500) | |
| Loss on sale of capital assets | (3,709) | |
| Total | | (4,209) |

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|---------------------------|--|-------|
| These amounts consist of: | | |
| Capital Leases Principal | | 8,475 |

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 fiscal year: | | |
| Investment Earnings | | 623 |

Accrued interest payable on the leases are not reported in the funds, but are allocated as an expense over the life of the debt in the Statement of Activities.

| | | |
|--------------------------------------|--|----|
| Decrease in Accrued Interest Payable | | 40 |
|--------------------------------------|--|----|

| | |
|---|-----------|
| Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. | 1,287,494 |
|---|-----------|

| | |
|--|-----------|
| Except for amounts reported as deferred inflows/outflows, changes in the net position liability are reported as pension expense in the statement of activities | (891,046) |
|--|-----------|

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:

| | |
|--|----------|
| Increase in Compensated Absences Payable | (32,105) |
|--|----------|

| | |
|---|-------------|
| Change in Net Position of Governmental Activities | (\$471,361) |
|---|-------------|

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

The Miami County Educational Service Center (the “Educational Service Center”) is located in Troy, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Bethel, Miami East, and Newton Local School Districts, Piqua and Troy City School Districts, and Covington, Bradford, Milton Union, and Tipp City Exempted Village School Districts located in Miami County. The Educational Service Center also provides services to Vandalia-Butler City Schools and Northridge Local Schools in Montgomery County. 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 Miami County Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center has 165 classified staff employees, 124 certified teaching personnel, and eight administrative employees that provide services to the local, city, and exempted village 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 Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Miami County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service Center participates in four jointly governed organizations, two insurance purchasing pools, and one public entity shared risk pool. These organizations are discussed in Note 15 to the basic financial statements. These organizations are:

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association

Southwestern Ohio Educational Purchasing Council

Upper Valley Career Center

Miami Valley Career Technology Center

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'

Compensation Group Rating Plan

Schools of Ohio Risk Sharing Authority, Inc.

Public Entity Shared Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Benefit
Plan Trust

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Miami County 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 primary government, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type. The Educational Service Center, however, has no business-type activities.

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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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. The major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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. All funds of the Educational Service Center are classified as governmental.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Educational Service Center typically 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 liabilities and deferred inflows of resources 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 and report 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.

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

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 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 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 of resources, and in the presentation of expenses versus expenditures.

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 will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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

Miami County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 student fees, grants, and accrued 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 fund balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue represents interest. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. (See Note 10).

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 costs, such as depreciation and amortization, are not recognized in the governmental funds.

Pension

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

Miami County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 2015, the Educational Service Center invested in a money market mutual fund, federal agency securities, a certificate of deposit and a U.S. Treasury Note. Except for the mutual funds, investments are reported at fair value which is based on quoted market price. For investments in open-ended mutual funds, the fair value is determined by the fund's current share price.

Following Ohio Statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2015 amounted to \$13,968.

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.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unclaimed monies.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, 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.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost, 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 fair market 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 capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 5-50 years |
| Furniture and Equipment | 4-20 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 eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Educational Service Center.

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

On governmental fund financial statements, compensated absences are reported as liabilities 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 funds from which the employees will be paid.

Miami County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 during the current fiscal year. Capital leases that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

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.

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 Board. Those committed amounts cannot be used for any other purpose unless the 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.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 intended uses established by the Educational Service Center Board which include public school support and purchases on order at this time. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated.

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance 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

The net investment in capital assets component of net position 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 the 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 resources restricted for other purposes include athletic programs.

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

Estimates

The preparation of the 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.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPAL AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the Educational Service Center implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 and 71 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

| | |
|--|------------------------------|
| Net position June 30, 2014 | \$4,151,421 |
| Adjustments: | |
| Net Pension Liability | (23,717,876) |
| Deferred Outflow - Payments Subsequent to Measurement Date | <u>1,237,163</u> |
| Restated Net Position June 30, 2014 | <u><u>(\$18,329,292)</u></u> |

Other than employer contributions subsequent to the measurement date, the Educational Service Center made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 4 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2015:

| | <u>Deficit Fund Balances</u> |
|---|------------------------------|
| Alternative Education Challenge Grant | \$171 |
| Title I Grant | 88 |
| Early Childhood Special Education Grant | <u>377</u> |
| Total | <u><u>\$636</u></u> |

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2016. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 5 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, exempted village, 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

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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 the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26.83 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

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For the Fiscal Year Ended June 30, 2015

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2015, the Educational Service Center had the following investments. All investments are in an internal investment pool.

| | Fair Value | Maturity Less Than One Year | Maturity Due in 1-2 Years | Maturity Due in 3-4 Years | Moody's Rating | Concentration of Credit Risk |
|---------------------------------------|--------------------|-----------------------------------|---------------------------------|---------------------------------|-------------------|------------------------------------|
| First American Treasury Obligation | | | | | | |
| Money Market Mutual Fund | \$1,960 | \$1,960 | \$0 | \$0 | Aaa | N/A |
| Federal Home Loan Bank Notes | 350,625 | 74,995 | 275,630 | 0 | Aaa | 22% |
| Federal Home Loan Mortgage Notes | 375,382 | 0 | 375,382 | 0 | Aaa | 24% |
| Federal National Mortgage Association | | | | | | |
| Notes | 594,493 | 150,208 | 294,161 | 150,124 | Aaa | 38% |
| Goldman Sach CD | 107,075 | 0 | 107,075 | 0 | P-1 | 7% |
| US Treasury Note | 130,061 | 130,061 | 0 | 0 | Aaa | 8% |
| Totals | <u>\$1,559,596</u> | <u>\$357,224</u> | <u>\$1,052,248</u> | <u>\$150,124</u> | | |

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Interest Rate Risk:

The Educational Service Center has no investment policy that addresses interest rate risk beyond State statute requirements. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk:

The Moody's ratings of the Educational Service Center's investments are listed in the table above. The Educational Service Center has no investment policy dealing with investment credit risk beyond the requirement in State statute.

Concentration of Credit Risk:

The Educational Service Center places no limit on the amount it may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. The percentage that each investment represents of the total investments is listed in the table above.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2015, consisted of accrued interest, accounts and intergovernmental. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|-------------------------------------|------------------------|
| <u>Governmental Activities:</u> | |
| Tuition and Student Fees | \$15,420 |
| Miscellaneous | 1,400 |
| Total Intergovernmental Receivables | <u><u>\$16,820</u></u> |

NOTE 8 - CAPITAL ASSETS

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

| | <u>Balance</u> | | <u>Balance</u> |
|---|--------------------|------------------|--------------------|
| | <u>6/30/14</u> | <u>Additions</u> | <u>6/30/15</u> |
| <u>Governmental Activities:</u> | | | |
| Capital Assets, not Being Depreciated: | | | |
| Land | \$119,608 | \$0 | \$119,608 |
| Capital Assets, Being Depreciated: | | | |
| Buildings and Improvements | 1,171,991 | 0 | 1,171,991 |
| Furniture and Equipment | 570,745 | 41,216 | 582,534 |
| Total Capital Assets, Being Depreciated | <u>\$1,742,736</u> | <u>\$41,216</u> | <u>(\$29,427)</u> |
| | | | <u>\$1,754,525</u> |

(continued)

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For the Fiscal Year Ended June 30, 2015

| | Balance 6/30/14 | Additions | Deductions | Balance 6/30/15 |
|---|--------------------|------------|------------|--------------------|
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (\$184,318) | (\$23,506) | \$0 | (\$207,824) |
| Furniture and Equipment | (460,576) | (38,275) | 25,218 | (473,633) |
| Total Accumulated Depreciation | (644,894) | (61,781) * | 25,218 | (681,457) |
| Capital Assets, Being Depreciated, Net | 1,097,842 | (20,565) | (4,209) | 1,073,068 |
| Governmental Activities Capital Assets, Net | \$1,217,450 | (\$20,565) | (\$4,209) | \$1,192,676 |

*Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|----------|
| Instruction: | |
| Special | \$19,583 |
| Support Services: | |
| Pupils | 3,401 |
| Instructional Staff | 1,749 |
| Administration | 36,648 |
| Fiscal | 138 |
| Central | 262 |
| Total Depreciation Expense | \$61,781 |

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 2015, the Educational Service Center joined together with other school districts in Ohio to participate in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), an insurance purchasing pool (See Note 15). Each individual participant enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the SORSA. The Educational Service Center contracts for property, fleet, and liability insurance with SORSA.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

Workers' Compensation

For fiscal year 2015, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 15). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the

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Notes to the Basic Financial Statements

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GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

Medical Benefits

For fiscal year 2015, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (See Note 15). The Educational Service Center pays monthly premiums to the Trust for employee medical insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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.

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Notes to the Basic Financial Statements
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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.

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 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

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Notes to the Basic Financial Statements

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ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contributions to SERS was \$398,400 for fiscal year 2015. Of this amount \$61,608 is reported as an intergovernmental payable.

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.

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

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

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

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$889,094 for fiscal year 2015. Of this amount \$124,334 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|--------------|--------------|
| Proportionate Share of the Net Pension Liability | \$5,549,071 | \$14,437,319 | \$19,986,390 |
| Proportion of the Net Pension Liability | 0.10964500% | 0.05935553% | |
| Pension Expense | \$322,967 | \$568,079 | \$891,046 |

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

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$47,229 | \$138,991 | \$186,220 |
| Educational Service Center contributions subsequent to the measurement date | <u>398,400</u> | <u>889,094</u> | <u>1,287,494</u> |
| Total Deferred Outflows of Resources | <u>\$445,629</u> | <u>\$1,028,085</u> | <u>\$1,473,714</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | <u>\$900,630</u> | <u>\$2,670,959</u> | <u>\$3,571,589</u> |

\$1,287,494 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|--------------------|----------------------|----------------------|
| 2016 | (\$213,231) | (\$632,992) | (\$846,223) |
| 2017 | (213,231) | (632,992) | (846,223) |
| 2018 | (213,231) | (632,992) | (846,223) |
| 2019 | <u>(213,708)</u> | <u>(632,992)</u> | <u>(846,700)</u> |
| Total | <u>(\$853,401)</u> | <u>(\$2,531,968)</u> | <u>(\$3,385,369)</u> |

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.

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

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

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

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

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

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as

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For the Fiscal Year Ended June 30, 2015

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 | \$7,916,875 | \$5,549,071 | \$3,557,543 |

Actuarial Assumptions - STRS

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

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

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

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

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

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For the Fiscal Year Ended June 30, 2015

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

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

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$20,668,596 | \$14,437,319 | \$9,167,755 |

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, 2015, two member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

Miami County Educational Service Center

Notes to the Basic Financial Statements

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NOTE 11 - POST-EMPLOYMENT 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 under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Educational Service Center's surcharge obligation was \$48,684 in surcharge.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$79,396, \$56,214, and \$56,472, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Medicare Part B premiums. The Plan is included in the report of STRS Ohio, which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$62,451, and \$58,661 respectively. The full amount has been contributed for all three fiscal years.

NOTE 12 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All 12 month employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. Any personal leave not used by fiscal year-end will be converted to sick leave.

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for all personnel. Upon retirement, employees with five or more years of current service with the public schools of Ohio receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 75 days.

Insurance Benefits

The Educational Service Center provides life insurance and accidental death and disbursement insurance to employees through Sun Life Assurance Company of Canada. Dental insurance is provided through Delta Dental. Vision benefits are provided by Vision Service Plan.

Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The 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.

Miami County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years, the Educational Service Center entered into a lease-purchase agreement for the purchase of copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by leases have been capitalized in the Statement of Net Position for governmental activities in the amount of \$45,163. A corresponding liability was recorded on the Statement of Net Position for governmental activities. Principal payments in fiscal year 2015 totaled \$8,475.

The assets acquired through capital leases are as follows:

| | Asset Value | Accumulated Depreciation | Net Book Value June 30, 2015 |
|-------------------------|-------------|-----------------------------|---------------------------------|
| Asset: | | | |
| Furniture and Equipment | \$45,163 | (\$15,573) | \$29,590 |

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

| | June 30, | Total Payments |
|---|----------|----------------|
| | 2016 | \$11,148 |
| | 2017 | 11,148 |
| | 2018 | 11,148 |
| | 2019 | 1,858 |
| Total | | 35,302 |
| Less: Amount Representing Interest | | (3,926) |
| Present Value of Minimum Lease Payments | | \$31,376 |

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2015 were as follows:

| | Amount Outstanding 6/30/14 | Additions | Deletions | Amount Outstanding 6/30/15 | Due in One Year |
|---------------------------------|----------------------------------|-----------|-------------|----------------------------------|--------------------|
| <u>Governmental Activities:</u> | | | | | |
| Net Pension Liability: | | | | | |
| SERS | \$6,520,236 | \$0 | \$971,165 | \$5,549,071 | \$0 |
| STRS | 17,197,640 | 0 | 2,760,321 | 14,437,319 | 0 |
| Total Net Pension Liability | \$23,717,876 | \$0 | \$3,731,486 | \$19,986,390 | \$0 |

(continued)

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

| | Amount Outstanding 6/30/14 | Additions | Deletions | Amount Outstanding 6/30/15 | Due in One Year |
|---------------------------------|----------------------------------|------------------|--------------------|----------------------------------|--------------------|
| <u>Governmental Activities:</u> | | | | | |
| Compensated Absences | \$524,285 | \$109,489 | \$77,384 | \$556,390 | \$50,984 |
| Capital Leases | 39,851 | 0 | 8,475 | 31,376 | 9,126 |
| Total Governmental Activities | | | | | |
| Long-Term Obligations | <u>\$24,282,012</u> | <u>\$109,489</u> | <u>\$3,817,345</u> | <u>\$20,574,156</u> | <u>\$60,110</u> |

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences and capital leases will be paid from the General Fund. For additional information related to the net pension liability see note 10.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND PUBLIC ENTITY SHARED RISK POOL

Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Board exercises total control over operations of the Associations including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation of the Board. Payments to MDECA are made from the General Fund. The Educational Service Center paid MDECA \$26,934 for services provided during the fiscal year. Financial information can be obtained from Dean Reineke, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 130 school districts and educational service centers in 18 counties. The purpose of SOEPC is to obtain prices for quality merchandise and services commonly used by schools. 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. Any district withdrawing from the SOEPC forfeits 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 during the one year period. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. Payments to SOEPC are made from the General Fund. During fiscal year 2015,

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

the Educational Service Center paid \$300 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Upper Valley Career Center - The Upper Valley Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from each of the seven participating districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following school districts: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or local school districts and/or educational service center: Piqua, Sidney, Troy and Shelby County Educational Service Center. The Board exercises total control over the operations of the Center 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 2015, the Educational Service Center did not contribute any money to the Upper Valley Career Center. To obtain financial information write to the Upper Valley Career Center, Anthony Fraley, who serves as Treasurer, at 8811 Career Drive, Piqua, Ohio 45356-9254.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the 11 participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following school districts: Carlisle, Eaton, Huber Heights, Miamisburg, Milton-Union, Northmont, Tipp City, Trotwood-Madison, Vandalia-Butler, Versailles, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one member is appointed from the following educational service centers: Miami County, Darke County, and Preble County. The Board exercises total control over the operations of the Center 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 2015, the Educational Service Center did not contribute any money to the Miami Valley Career Technology Center. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Gossett, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority, Inc. - The Educational Service Center participates in the

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Schools of Ohio Risk Sharing Authority, Inc. (SORSA), a risk sharing pool serving school districts in Ohio. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to the School District property and persons which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and educators' errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of SORSA are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one representative on the board at any time. Each member school district's control over the budgetary and financing of SORSA is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 8050 N. High St., Suite 160, Columbus, Ohio, 43235.

Public Entity Shared Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust - The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 16 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned 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 constraints placed on fund balance for the major governmental funds and other governmental funds are presented below:

Miami County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

| Fund Balances | General | Nonmajor Governmental Funds | Total |
|------------------------------------|----------------------------------|--------------------------------|----------------------------------|
| <i>Nonspendable</i> | | | |
| Inventory | \$4,449 | \$0 | \$4,449 |
| Prepaid Items | 5,455 | 0 | 5,455 |
| Unclaimed Monies | 66 | 0 | 66 |
| <i>Total Nonspendable</i> | <u>9,970</u> | <u>0</u> | <u>9,970</u> |
| <i>Restricted for</i> | | | |
| Grants | 400 | 0 | 400 |
| Athletic Programs | 0 | 2,979 | 2,979 |
| <i>Total Restricted</i> | <u>400</u> | <u>2,979</u> | <u>3,379</u> |
| <i>Committed to</i> | | | |
| Capital Improvements | 232,887 | 0 | 232,887 |
| <i>Assigned to</i> | | | |
| Public School Support | 11,990 | 0 | 11,990 |
| Purchases on Order | 11,583 | 0 | 11,583 |
| <i>Total Assigned</i> | <u>23,573</u> | <u>0</u> | <u>23,573</u> |
| <i>Unassigned (Deficit)</i> | <u>2,408,194</u> | <u>(636)</u> | <u>2,407,558</u> |
| <i>Total Fund Balances</i> | <u><u>\$2,675,024</u></u> | <u><u>\$2,343</u></u> | <u><u>\$2,677,367</u></u> |

NOTE 17 – SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances 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 is \$27,367 in the General Fund.

NOTE 18 - 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 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, the affect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2015, if applicable, cannot be determined at this time.

Miami County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Litigation

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

Miami County Educational Service Center
 Required Supplementary Information
 Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

| | 2014 | 2013 |
|---|-------------|-------------|
| Educational Service Center's Proportion of the Net Pension Liability | 0.10964500% | 0.10964500% |
| Educational Service Center's Proportionate Share of the Net Pension Liability | \$5,549,071 | \$6,520,236 |
| Educational Service Center's Covered-Employee Payroll | \$3,223,992 | \$2,970,878 |
| Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 172.12% | 219.47% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.70% | 65.52% |

(1) Information prior to 2013 is not available.

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

Miami County 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 Two Fiscal Years (1)

| | 2014 | 2013 |
|---|--------------|--------------|
| Educational Service Center's Proportion of the Net Pension Liability | 0.05935553% | 0.05935553% |
| Educational Service Center's Proportionate Share of the Net Pension Liability | \$14,437,319 | \$17,197,640 |
| Educational Service Center's Covered-Employee Payroll | \$6,079,369 | \$5,866,146 |
| Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 237.48% | 293.17% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 69.30% |

(1) Information prior to 2013 is not available.

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

Miami County Educational Service Center
 Required Supplementary Information
 Schedule of Educational Service Center Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$398,400 | \$446,845 | \$411,169 | \$396,754 |
| Contributions in Relation to the Contractually Required Contribution | <u>(398,400)</u> | <u>(446,845)</u> | <u>(411,169)</u> | <u>(396,754)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Educational Service Center Covered- Employee Payroll | \$3,022,764 | \$3,223,992 | \$2,970,878 | \$2,949,843 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.18% | 13.86% | 13.84% | 13.45% |

| 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|-------------|-------------|-------------|-------------|-------------|-------------|
| \$369,095 | \$410,561 | \$292,221 | \$275,901 | \$296,752 | \$266,110 |
| (369,095) | (410,561) | (292,221) | (275,901) | (296,752) | (266,110) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$2,936,317 | \$3,032,207 | \$2,969,725 | \$2,809,585 | \$2,778,577 | \$2,515,217 |
| 12.57% | 13.54% | 9.84% | 9.82% | 12.10% | 8.31% |

Miami County Educational Service Center
 Required Supplementary Information
 Schedule of Educational Service Center Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$889,094 | \$790,318 | \$762,599 | \$657,500 |
| Contributions in Relation to the Contractually Required Contribution | <u>(889,094)</u> | <u>(790,318)</u> | <u>(762,599)</u> | <u>(657,500)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Educational Service Center Covered- Employee Payroll | \$6,350,671 | \$6,079,369 | \$5,866,146 | \$5,057,692 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$659,049 | \$656,684 | \$644,439 | \$642,822 | \$619,127 | \$571,128 |
| <u>(659,049)</u> | <u>(656,684)</u> | <u>(644,439)</u> | <u>(642,822)</u> | <u>(619,127)</u> | <u>(571,128)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$5,069,608 | \$5,051,415 | \$4,957,223 | \$4,944,785 | \$4,762,515 | \$4,393,292 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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Miami County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2015

| | Budgeted Amounts | | Actual | Variance With |
|--|--------------------|--------------------|--------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Intergovernmental | \$583,977 | \$583,977 | \$581,656 | (\$2,321) |
| Investment Earnings | 10,000 | 10,000 | 10,609 | 609 |
| Tuition and Fees | 12,905,872 | 12,905,872 | 13,372,502 | 466,630 |
| Gifts and Donations | 0 | 0 | 4,970 | 4,970 |
| Charges for Services | 35,000 | 35,000 | 24,557 | (10,443) |
| Miscellaneous | 115,000 | 115,000 | 190,309 | 75,309 |
| Total Revenues | <u>13,649,849</u> | <u>13,649,849</u> | <u>14,184,603</u> | <u>534,754</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 423,685 | 425,031 | 399,155 | 25,876 |
| Special | 8,952,694 | 8,992,957 | 8,189,042 | 803,915 |
| Support Services: | | | | |
| Pupils | 3,557,503 | 3,541,076 | 3,224,255 | 316,821 |
| Instructional Staff | 464,147 | 465,568 | 383,975 | 81,593 |
| Board of Education | 21,893 | 21,963 | 15,083 | 6,880 |
| Administration | 1,268,119 | 1,327,272 | 1,178,732 | 148,540 |
| Fiscal | 254,543 | 255,357 | 233,525 | 21,832 |
| Business | 196,889 | 197,518 | 161,390 | 36,128 |
| Operation and Maintenance of Plant | 108,422 | 109,119 | 88,873 | 20,246 |
| Central | 498 | 500 | 0 | 500 |
| Capital Outlay | 41,746 | 41,879 | 18,030 | 23,849 |
| Total Expenditures | <u>15,290,139</u> | <u>15,378,240</u> | <u>13,892,060</u> | <u>1,486,180</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(1,640,290)</u> | <u>(1,728,391)</u> | <u>292,543</u> | <u>2,020,934</u> |
| Other Financing Sources: | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 500 | 500 |
| Refund of Prior Year Expenditures | 7,500 | 7,500 | 30,522 | 23,022 |
| Total Other Financing Sources | <u>7,500</u> | <u>7,500</u> | <u>31,022</u> | <u>23,522</u> |
| Net Change in Fund Balance | (1,632,790) | (1,720,891) | 323,565 | 2,044,456 |
| Fund Balance at Beginning of Year | 4,051,409 | 4,051,409 | 4,051,409 | 0 |
| Prior Year Encumbrances Appropriated | 20,478 | 20,478 | 20,478 | 0 |
| Fund Balance at End of Year | <u>\$2,439,097</u> | <u>\$2,350,996</u> | <u>\$4,395,452</u> | <u>\$2,044,456</u> |

See Accompanying Notes to the Supplemental Information

Miami County Educational Service Center

Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2015

NOTE 1 - BUDGETARY PROCESS

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's 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 statement 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 Board.

The Educational Service Center's Board adopts an annual appropriations resolution, which is the Board's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund/function level for the General Fund and at the fund level for all other 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 appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from the prior fiscal year. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during 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 balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned of fund balance (GAAP basis).

Miami County Educational Service Center

Notes to the Supplemental Information

For the Fiscal Year Ended June 30, 2015

4. The change in the fair value of investments is not included on the budget basis operating statement. This amount is included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance

| | General Fund |
|--|-------------------------|
| GAAP Basis | (\$820,732) |
| Revenue Accruals | 1,143,743 |
| Expenditure Accruals | 30,870 |
| Encumbrances | (27,367) |
| Change in Fair Value of Investments Fiscal Year 2015 | (3,268) |
| Change in Fair Value of Investments Fiscal Year 2014 | 319 |
| Budget Basis | <u><u>\$323,565</u></u> |

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Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The discussion and analysis of the Miami County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2014. 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 the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- The Educational Service Center approved the hiring of 25 new staff positions due to the increase of services being offered to school district cliental.
- During fiscal year 2014, the Educational Service Center expanded services provided to school districts, which resulted in an increase in revenue through the foundation settlements as well as accounts receivable billings.

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 Miami County 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 most significant funds with all other nonmajor funds presented in total in one column.

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014". The statement of net position and the statement of activities answer this question. These statements include all assets and liabilities and deferred inflows of resources using the accrual basis of accounting 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.

These two statements report the Educational Service Center's net position and changes in that position. This 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, and some not.

In the statement of net position and the statement of activities, the Educational Service Center only reports governmental activities. Governmental activities are the activities where all of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, 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 63. 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. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds

All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

position and the statement of activities) and governmental funds is reconciled in the financial statements.

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 year 2014 compared to fiscal year 2013.

Table 1
Net Position

| | 2014 | 2013 | Change |
|----------------------------------|--------------------|--------------------|------------------|
| Assets: | | | |
| Current and Other Assets | \$5,262,599 | \$4,486,435 | \$776,164 |
| Capital Assets, Net | 1,217,450 | 1,206,438 | 11,012 |
| Total Assets | <u>6,480,049</u> | <u>5,692,873</u> | <u>787,176</u> |
| Liabilities: | | | |
| Other Liabilities | 1,764,492 | 1,648,040 | 116,452 |
| Long-Term Liabilities | 564,136 | 502,263 | 61,873 |
| Total Liabilities | <u>2,328,628</u> | <u>2,150,303</u> | <u>178,325</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | 1,177,599 | 1,182,730 | (5,131) |
| Restricted | 2,485 | 1,973 | 512 |
| Unrestricted | 2,971,337 | 2,357,867 | 613,470 |
| Total Net Position | <u>\$4,151,421</u> | <u>\$3,542,570</u> | <u>\$608,851</u> |

Current and other assets increased due to intergovernmental receivables relating to an expanded scope of services provided to the clients. Other liabilities increased because of an increase in accrued wages and benefits payable and intergovernmental payable. Accrued wages and benefits payable and intergovernmental payable increased due to an increase in staff as a result of more services being offered to school district cliental. Long-term liabilities rose from the addition of compensated absences payable during fiscal year 2014.

In total net position increased \$608,851. Net investment in capital assets decreased due to depreciation expense exceeding current year additions. Unrestricted net position increased due to an increase in the scope of billable services provided to client school districts and State foundation payments.

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for the fiscal years ended June 30, 2014 and 2013.

Table 2
Changes in Net Position

| | 2014 | 2013 | Change |
|---|--------------------|--------------------|------------------|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | \$13,555,674 | \$11,835,586 | \$1,720,088 |
| Operating Grants and Contributions | 267,128 | 983,130 | (716,002) |
| Total Program Revenues | <u>13,822,802</u> | <u>12,818,716</u> | <u>1,004,086</u> |
| General Revenues: | | | |
| Grants and Entitlements not Restricted to Specific Programs | 480,699 | 429,019 | 51,680 |
| Investment Earnings | 11,907 | 396 | 11,511 |
| Gifts and Donations | 21,785 | 1,000 | 20,785 |
| Miscellaneous | 145,703 | 118,760 | 26,943 |
| Total General Revenues | <u>660,094</u> | <u>549,175</u> | <u>110,919</u> |
| Total Revenues | <u>14,482,896</u> | <u>13,367,891</u> | <u>1,115,005</u> |
| Program Expenses: | | | |
| Instruction: | | | |
| Regular | 547,743 | 415,889 | 131,854 |
| Special | 8,294,833 | 5,191,395 | 3,103,438 |
| Support Services: | | | |
| Pupils | 3,197,166 | 3,099,931 | 97,235 |
| Instructional Staff | 35,346 | 2,955,969 | (2,920,623) |
| Board of Education | 14,357 | 15,182 | (825) |
| Administration | 1,248,285 | 1,024,703 | 223,582 |
| Fiscal | 231,877 | 211,667 | 20,210 |
| Business | 205,217 | | 205,217 |
| Operation and Maintenance of Plant | 93,791 | 97,047 | (3,256) |
| Pupil Transportation | 98 | 2,185 | (2,087) |
| Central | 795 | 223,289 | (222,494) |
| Extracurricular Activities | 534 | 257 | 277 |
| Interest and Fiscal Charges | 4,003 | 5,833 | (1,830) |
| Total Expenses | <u>13,874,045</u> | <u>13,243,347</u> | <u>\$630,698</u> |
| Change in Net Position | 608,851 | 124,544 | |
| Net Position at Beginning of Year | <u>3,542,570</u> | <u>3,418,026</u> | |
| Net Position at End of Year | <u>\$4,151,421</u> | <u>\$3,542,570</u> | |

Miami County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Governmental Activities

In total, revenues increased due to the broader scope of services provided, which caused an increase in revenue from the client school districts received through foundation and billings. Charges for Services increased due to an increase in tuition and fees related to client billings. The Operating Grants decreased due to a decrease in gifted education funding.

Expenses increased \$630,698 from the previous year. The Educational Service Center approved the hiring of more staff during fiscal year 2014 which created additional salary expenses as well as a rise in health benefits expenses. Special instruction increased due to reclassifying aides from instructional staff to special instruction for 2014.

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 67. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,462,859 and expenditures of \$13,848,150. The net change in fund balance for the fiscal year in the General Fund was an increase of \$659,727, the result of an increase in revenue due to the addition of services provided to client school districts.

Capital Assets

At the end of fiscal year 2014, the Educational Service Center had \$1,217,450 invested in land, buildings and improvements, and furniture and equipment.

For more information on capital assets, refer to Note 7 of the basic financial statements.

Debt Administration

At June 30, 2014, the Educational Service Center had \$39,851 in total outstanding debt consisting of capital leases. Refer to Notes 12 and 13 of the basic financial statements for additional information.

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 questions about this report or need additional financial information, contact Cindy Hale, Treasurer, at Miami County Educational Service Center, 2000 West Stanfield Rd, Troy, Ohio, 45373-2987 or email at Cindy.Hale@miami.k12.oh.us.

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Miami County Educational Service Center

Statement of Net Position

June 30, 2014

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$4,074,691 |
| Accrued Interest Receivable | 1,179 |
| Intergovernmental Receivable | 1,179,512 |
| Materials and Supplies Inventory | 3,327 |
| Prepaid Items | 3,890 |
| Nondepreciable Capital Assets | 119,608 |
| Depreciable Capital Assets, Net | 1,097,842 |
| Total Assets | <u>6,480,049</u> |
| Liabilities: | |
| Accounts Payable | 1,836 |
| Accrued Wages and Benefits Payable | 1,376,770 |
| Matured Compensated Absences Payable | 60,596 |
| Accrued Interest Payable | 190 |
| Intergovernmental Payable | 325,100 |
| Long-Term Liabilities: | |
| Due Within One Year | 63,886 |
| Due in More Than One Year | 500,250 |
| Total Liabilities | <u>2,328,628</u> |
| Net Position: | |
| Net Investment in Capital Assets | 1,177,599 |
| Restricted for: | |
| Athletic Fund | 2,485 |
| Unrestricted | 2,971,337 |
| Total Net Position | <u>\$4,151,421</u> |

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2014

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|-------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions |
| | | | Total Governmental Activities |
| Governmental Activities: | | | |
| Instruction: | | | |
| Regular | \$547,743 | \$543,886 | \$0 |
| Special | 8,294,833 | 8,125,615 | 221,449 |
| Support Services: | | | |
| Pupils | 3,197,166 | 3,120,863 | 28,779 |
| Instructional Staff | 35,346 | 7,525 | 13,300 |
| Board of Education | 14,357 | 14,194 | 0 |
| Administration | 1,248,285 | 1,217,472 | 3,600 |
| Fiscal | 231,877 | 229,233 | 0 |
| Business | 205,217 | 202,877 | 0 |
| Operation and Maintenance of Plant | 93,791 | 92,722 | 0 |
| Pupil Transportation | 98 | 97 | 0 |
| Central | 795 | 144 | 0 |
| Extracurricular Activities | 534 | 1,046 | 0 |
| Interest and Fiscal Charges | 4,003 | 0 | 0 |
| Total Governmental Activities | <u>\$13,874,045</u> | <u>\$13,555,674</u> | <u>\$267,128</u> |
| General Revenues: | | | |
| Grants and Entitlements not Restricted to Specific Programs | | | 480,699 |
| Investment Earnings | | | 11,907 |
| Gifts and Donations | | | 21,785 |
| Miscellaneous | | | 145,703 |
| Total General Revenues | | | <u>660,094</u> |
| Change in Net Position | | | 608,851 |
| Net Position at Beginning of Year | | | <u>3,542,570</u> |
| Net Position at End of Year | | | <u>\$4,151,421</u> |

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2014

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|--------------------|-----------------------------------|--------------------------------|
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,068,752 | \$2,485 | \$4,071,237 |
| Accrued Interest Receivable | 1,179 | 0 | 1,179 |
| Intergovernmental Receivable | 1,179,512 | 0 | 1,179,512 |
| Materials and Supplies Inventory | 3,327 | 0 | 3,327 |
| Prepaid Items | 3,890 | 0 | 3,890 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | 3,454 | 0 | 3,454 |
| Total Assets | <u>\$5,260,114</u> | <u>\$2,485</u> | <u>\$5,262,599</u> |
| Liabilities and Fund Balances: | | | |
| Liabilities: | | | |
| Accounts Payable | \$1,836 | \$0 | \$1,836 |
| Accrued Wages and Benefits Payable | 1,376,770 | 0 | 1,376,770 |
| Matured Compensated Absences Payable | 60,596 | 0 | 60,596 |
| Intergovernmental Payable | 324,294 | 806 | 325,100 |
| Total Liabilities | <u>1,763,496</u> | <u>806</u> | <u>1,764,302</u> |
| Deferred Inflows of Resources: | | | |
| Unavailable Revenue | <u>862</u> | <u>0</u> | <u>862</u> |
| Fund Balances: | | | |
| Nonspendable | 10,671 | 0 | 10,671 |
| Restricted | 0 | 2,485 | 2,485 |
| Committed | 250,917 | 0 | 250,917 |
| Assigned | 30,137 | 0 | 30,137 |
| Unassigned (Deficit) | 3,204,031 | (806) | 3,203,225 |
| Total Fund Balances | <u>3,495,756</u> | <u>1,679</u> | <u>3,497,435</u> |
| Total Liabilities, Deferred Inflows and Fund Balances | <u>\$5,260,114</u> | <u>\$2,485</u> | <u>\$5,262,599</u> |

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2014

Total Governmental Fund Balances \$3,497,435

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 | 119,608 | |
| | Building and Improvements | 1,171,991 | |
| | Furniture and Equipment | 570,745 | |
| | Accumulated Depreciation | (644,894) | |
| | | | |
| Total | | | 1,217,450 |

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 reported as unavailable revenue in the funds.

| | |
|---------------------|-----|
| Investment Earnings | 862 |
|---------------------|-----|

In the Statement of Activities, interest is accrued on outstanding leases, whereas in governmental funds, an interest expenditure is reported when due.

| | |
|-----------------------------------|-------|
| Accrued Interest on Capital Lease | (190) |
|-----------------------------------|-------|

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

| | | | |
|-------|----------------------|-----------|-----------|
| | Compensated Absences | (524,285) | |
| | Capital Leases | (39,851) | |
| | | | |
| Total | | | (564,136) |

Net Position of Governmental Activities \$4,151,421

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------------|--------------------|-----------------------------------|--------------------------------|
| Revenues: | | | |
| Intergovernmental | \$623,464 | \$124,363 | \$747,827 |
| Investment Earnings | 11,991 | 0 | 11,991 |
| Tuition and Fees | 13,517,075 | 0 | 13,517,075 |
| Gifts and Donations | 8,122 | 0 | 8,122 |
| Charges for Services | 31,095 | 0 | 31,095 |
| Extracurricular | 0 | 1,046 | 1,046 |
| Miscellaneous | 145,703 | 0 | 145,703 |
| Total Revenues | <u>14,337,450</u> | <u>125,409</u> | <u>14,462,859</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 547,948 | 0 | 547,948 |
| Special | 8,102,732 | 78,724 | 8,181,456 |
| Support Services: | | | |
| Pupils | 3,167,543 | 28,867 | 3,196,410 |
| Instructional Staff | 92,206 | 13,539 | 105,745 |
| Board of Education | 14,357 | 0 | 14,357 |
| Administration | 1,227,032 | 3,600 | 1,230,632 |
| Fiscal | 223,321 | 0 | 223,321 |
| Business | 195,794 | 0 | 195,794 |
| Operation and Maintenance of Plant | 93,333 | 0 | 93,333 |
| Pupil Transportation | 98 | 0 | 98 |
| Central | 533 | 0 | 533 |
| Extracurricular Activities | 0 | 534 | 534 |
| Capital Outlay | 45,163 | 0 | 45,163 |
| Debt Service: | | | |
| Principal Retirement | 8,899 | 0 | 8,899 |
| Interest and Fiscal Charges | 3,927 | 0 | 3,927 |
| Total Expenditures | <u>13,722,886</u> | <u>125,264</u> | <u>13,848,150</u> |
| Excess of Revenues Over Expenditures | 614,564 | 145 | 614,709 |
| Other Financing Sources: | | | |
| Inception of Capital Lease | 45,163 | 0 | 45,163 |
| Net Change in Fund Balances | 659,727 | 145 | 659,872 |
| Fund Balances at Beginning of Year | 2,836,029 | 1,534 | 2,837,563 |
| Fund Balances at End of Year | <u>\$3,495,756</u> | <u>\$1,679</u> | <u>\$3,497,435</u> |

See Accompanying Notes to the Basic Financial Statements

Miami County 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, 2014

Net Change in Fund Balances - Total Governmental Funds \$659,872

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|----------|--------|
| Capital Assets Additions | 78,943 | |
| Depreciation Expense | (46,721) | |
| Excess of capital outlay over depreciation expense | | 32,222 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

| | |
|------------------------------------|----------|
| Loss on Disposal of Capital Assets | (21,210) |
|------------------------------------|----------|

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability.

(45,163)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment and early termination reduces long-term liabilities in the statement of net position. These amounts consist of:

| | | |
|----------------------------|--------|--------|
| Capital Leases Principal | 8,899 | |
| Early Termination of Lease | 20,121 | |
| Total | | 29,020 |

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 fiscal year:

| | |
|---------------------|------|
| Investment Earnings | (84) |
|---------------------|------|

Accrued interest payable on the leases are not reported in the funds, but are allocated as an expense over the life of the debt in the Statement of Activities.

| | |
|--------------------------------------|------|
| Increase in Accrued Interest Payable | (76) |
|--------------------------------------|------|

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:

| | |
|--|----------|
| Increase in Compensated Absences Payable | (45,730) |
|--|----------|

Change in Net Position of Governmental Activities \$608,851

See Accompanying Notes to the Basic Financial Statements

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

The Miami County Educational Service Center (the “Educational Service Center”) is located in Troy, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Bethel, Miami East, and Newton Local School Districts, Piqua and Troy City School Districts, and Covington, Bradford, Milton Union, and Tipp City Exempted Village School Districts located in Miami County. The Educational Service Center also provides services to Vandalia-Butler City Schools and Northridge Local Schools in Montgomery County. 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 Miami County Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and/or federal agencies. The Educational Service Center has 155 classified staff employees, 130 certified teaching personnel, and eight administrative employees that provide services to the local, city, and exempted village 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 Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Miami County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service Center participates in four jointly governed organizations, two insurance purchasing pools, and one public entity shared risk pool. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association

Southwestern Ohio Educational Purchasing Council

Upper Valley Career Center

Miami Valley Career Technology Center

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'

Compensation Group Rating Plan

Schools of Ohio Risk Sharing Authority, Inc.

Public Entity Shared Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Benefit
Plan Trust

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Miami County 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 primary government, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type. The Educational Service Center, however, has no business-type activities.

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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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. The major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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. All funds of the Educational Service Center are classified as governmental.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Educational Service Center typically 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 liabilities and deferred inflows of resources 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 and report 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.

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

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

Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets 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 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 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 of resources, and in the presentation of expenses versus expenditures.

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 will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the 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

Miami County Educational Service Center
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For the Fiscal Year Ended June 30, 2014

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 student fees, grants, and accrued interest.

Deferred Inflows of Resources:

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 unavailable revenue. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue represents interest. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

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 costs, such as depreciation and amortization, are not recognized in the governmental funds.

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 2014, the Educational Service Center invested in a money market mutual fund, federal agency securities, commercial paper, and U.S. Treasury Notes. Except for the mutual funds, investments are reported at fair value which is based on quoted market price. For investments in open-ended mutual funds, the fair value is determined by the fund's current share price.

Following Ohio Statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2014 amounted to \$11,991.

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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.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unclaimed monies.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014, 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.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost, 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 fair market 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 capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 5-50 years |
| Furniture and Equipment | 4-20 years |

Miami County Educational Service Center
Notes to the Basic Financial Statements
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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 eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Educational Service Center.

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

On governmental fund financial statements, compensated absences are reported as liabilities 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 funds from which the employees will be paid.

Accrued Liabilities and Long-term Obligations

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

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

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:

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Notes to the Basic Financial Statements

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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.

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 Board. Those committed amounts cannot be used for any other purpose unless the 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 intended uses established by the Educational Service Center Board which include public school support and purchases on order at this time. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated.

Unassigned

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

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

The net investment in capital assets component of net position 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 the 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 resources restricted for other purposes include athletic programs.

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

Estimates

The preparation of the 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 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2014:

| | <u>Deficit Fund Balances</u> |
|---|------------------------------|
| Alternative Education Challenge Grant | \$214 |
| Title I | 102 |
| Early Childhood Special Education Grant | 490 |
| Total | <u><u>\$806</u></u> |

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2015. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, exempted village, 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

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Notes to the Basic Financial Statements

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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 the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$30.24 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

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For the Fiscal Year Ended June 30, 2014

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2014, the Educational Service Center had the following investments. All investments are in an internal investment pool.

| | Fair Value | Maturity Less Than One Year | Maturity Due in 1-2 Years | Maturity Due in 3-4 Years | Moody's Rating | Concentration of Credit Risk |
|--|--------------------|-----------------------------------|---------------------------------|---------------------------------|-------------------|------------------------------------|
| First American Treasury Obligation | | | | | | |
| Money Market Mutual Fund | \$43,368 | \$43,368 | \$0 | \$0 | Aaa | N/A |
| Federal Home Loan Bank Notes | 346,528 | 75,132 | 271,396 | 0 | Aaa | 22% |
| Federal Home Loan Mortgage Notes | 300,390 | 0 | 300,390 | 0 | Aaa | 19% |
| Federal National Mortgage Association | | | | | | |
| Notes | 553,337 | 0 | 410,018 | 143,319 | Aaa | 36% |
| Commercial Paper - Toyota Motor Credit | 149,871 | 149,871 | 0 | 0 | P-1 | 10% |
| US Treasury Note | 155,133 | 0 | 155,133 | 0 | Aaa | 10% |
| Totals | <u>\$1,548,627</u> | <u>\$268,371</u> | <u>\$1,136,937</u> | <u>\$143,319</u> | | |

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Interest Rate Risk:

The Educational Service Center has no investment policy that addresses interest rate risk beyond State statute requirements. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk:

The Moody's ratings of the Educational Service Center's investments are listed in the table above. The Educational Service Center has no investment policy dealing with investment credit risk beyond the requirement in State statute.

Concentration of Credit Risk:

The Educational Service Center places no limit on the amount it may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. The percentage that each investment represents of the total investments is listed in the table above.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2014, consisted of accrued interest and intergovernmental. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|---------------------------------|--------------------|
| <u>Governmental Activities:</u> | |
| Tuition and Student Fees | <u>\$1,179,512</u> |

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, was as follows:

| | <u>Balance</u> <u>6/30/13</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/14</u> |
|---|----------------------------------|------------------|-------------------|----------------------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital Assets, not Being Depreciated: | | | | |
| Land | \$119,608 | \$0 | \$0 | \$119,608 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | 1,171,991 | 0 | 0 | 1,171,991 |
| Furniture and Equipment | 575,180 | 78,943 | (83,378) | 570,745 |
| Total Capital Assets, Being Depreciated | <u>\$1,747,171</u> | <u>\$78,943</u> | <u>(\$83,378)</u> | <u>\$1,742,736</u> |

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

| | Balance 6/30/13 | Additions | Deductions | Balance 6/30/14 |
|---|---------------------------|------------------------|--------------------------|---------------------------|
| <u>Governmental Activities:</u> | | | | |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (\$161,167) | (\$23,151) | \$0 | (\$184,318) |
| Furniture and Equipment | (499,174) | (23,570) | 62,168 | (460,576) |
| Total Accumulated Depreciation | <u>(660,341)</u> | <u>(46,721) *</u> | <u>62,168</u> | <u>(644,894)</u> |
| Capital Assets, Being Depreciated, Net | <u>1,086,830</u> | <u>32,222</u> | <u>(21,210)</u> | <u>1,097,842</u> |
| Governmental Activities Capital Assets, Net | <u><u>\$1,206,438</u></u> | <u><u>\$32,222</u></u> | <u><u>(\$21,210)</u></u> | <u><u>\$1,217,450</u></u> |

*Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|------------------------|
| Instruction: | |
| Special | \$10,301 |
| Support Services: | |
| Pupils | 1,913 |
| Instructional Staff | 621 |
| Administration | 33,624 |
| Central | 262 |
| Total Depreciation Expense | <u><u>\$46,721</u></u> |

NOTE 8 - 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 2014, the Educational Service Center joined together with other school districts in Ohio to participate in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), an purchasing pool (See Note 14). Each individual participant enters into an agreement with the SORSA and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the SORSA. The Educational Service Center contracts for property, fleet, and liability insurance with SORSA.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

Workers' Compensation

For fiscal year 2014, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 14). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

Medical Benefits

For fiscal year 2014, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (See Note 14). The Educational Service Center pays monthly premiums to the Trust for employee medical insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

Plan Description – The Educational Service Center participates in the School Employees Retirement System (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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary and the Educational Service Center is required to contribute 14.0 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 10.0 percent for plan members and 14.0 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, 2014, the allocation to pension and death benefits was 13.1 percent. The remaining 0.90 percent of the 14.0 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$422,343, \$389,185 and \$374,630, respectively. The full amount has been contributed for fiscal years 2014, 2013 and 2012.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.50 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11.0 percent for members and 14.0 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14.0 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11.0 percent of their annual covered salary. The School District was required to contribute 14.0 percent; 13.0 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$811,862, \$762,599, and \$657,500, respectively. For fiscal year 2014, 79.90 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2014 was \$11,943 made by the Educational Service Center and \$9,384 made by the plan members. In addition, member contributions of \$16,020 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

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, 2014, two members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 10 - POST-EMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan, and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans, as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report, which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14.0 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the Educational Service Center paid \$52,761 in surcharge.

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.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$56,214, \$56,472, and \$81,134, respectively. The full amount has been contributed for fiscal years 2014, 2013, and 2012.

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For the Fiscal Year Ended June 30, 2014

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012, were \$24,502, \$22,069 and \$22,419 respectively. The full amount has been contributed for fiscal years 2014, 2013, and 2012.

State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$62,451, \$58,661, and \$50,577 respectively. For fiscal year 2014, 79.90 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the healthcare fund effective July 1, 2014.

NOTE 11 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All 12 month employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. Any personal leave not used by fiscal year-end will be converted to sick leave.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for all personnel. Upon retirement, employees with five or more years of current service with the public schools of Ohio receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 75 days.

Insurance Benefits

The Educational Service Center provides life insurance and accidental death and disbursement insurance to employees through Sun Life Assurance Company of Canada. Dental insurance is provided through Delta Dental. Vision benefits are provided by Vision Service Plan.

Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The 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 12 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2014, the Educational Service Center replaced their prior year leases with a new lease. The Educational Service Center entered into a lease-purchase agreement for the purchase of copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by leases have been capitalized in the Statement of Net Position for governmental activities in the amount of \$45,163. A corresponding liability was recorded on the Statement of Net Position for governmental activities. Principal payments in fiscal year 2014 totaled \$8,899.

The assets acquired through capital leases are as follows:

| | <u>Asset Value</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value June 30, 2014</u> |
|-------------------------|--------------------|-------------------------------------|---|
| Asset: | | | |
| Furniture and Equipment | <u>\$45,163</u> | <u>(\$6,229)</u> | <u>\$38,934</u> |

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2014.

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

| June 30, | Total Payments |
|---|----------------|
| 2015 | \$11,148 |
| 2016 | 11,148 |
| 2017 | 11,148 |
| 2018 | 11,148 |
| 2019 | 1,858 |
| Total | 46,450 |
| Less: Amount Representing Interest | (6,599) |
| Present Value of Minimum Lease Payments | \$39,851 |

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2014 were as follows:

| | Amount Outstanding 6/30/13 | Additions | Deletions | Amount Outstanding 6/30/14 | Due in One Year |
|---------------------------------|----------------------------------|-----------|-----------|----------------------------------|--------------------|
| <u>Governmental Activities:</u> | | | | | |
| Compensated Absences | \$478,555 | \$79,174 | \$33,444 | \$524,285 | \$55,411 |
| Capital Leases | 23,708 | 45,163 | 29,020 | 39,851 | 8,475 |
| Total Governmental Activities | | | | | |
| Long-Term Obligations | \$502,263 | \$124,337 | \$62,464 | \$564,136 | \$63,886 |

Compensated absences and capital leases will be paid from the General Fund.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS AND PUBLIC ENTITY SHARED RISK POOL

Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Board exercises total control over operations of the Associations including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation of the Board. Payments to MDECA are made from the General Fund. The Educational Service Center paid MDECA \$18,039 for services provided during the fiscal year. Financial information can be

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

obtained from Dean Reineke, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts and educational service centers in 12 counties. The purpose of SOEPC is to obtain prices for quality merchandise and services commonly used by schools. 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. Any district withdrawing from the SOEPC forfeits 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 during the one year period. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. Payments to SOEPC are made from the General Fund. During fiscal year 2014, the School District paid \$300 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Upper Valley Career Center - The Upper Valley Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from each of the seven participating districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following school districts: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or local school districts and/or educational service center: Piqua, Sidney, Troy and Shelby County Educational Service Center. The Board exercises total control over the operations of the Center 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 2014, the Educational Service Center did not contribute any money to the Upper Valley Career Center. To obtain financial information write to the Upper Valley Career Center, Anthony Fraley, who serves as Treasurer, at 8811 Career Drive, Piqua, Ohio 45356-9254.

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the 11 participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following school districts: Carlisle, Eaton, Huber Heights, Miamisburg, Milton-Union, Northmont, Tipp City, Trotwood-Madison, Vandalia-Butler, Versailles, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one member is appointed from the following educational service centers: Miami County, Darke County, and Preble County. The Board exercises total control over the operations of the Center 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 2014, the Educational Service Center did not contribute any money to the Miami Valley Career Technology Center. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Gossett, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

Miami County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority, Inc. - The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority, Inc. (SORSA), a risk sharing pool serving school districts in Ohio. SORSA was formed as an Ohio non-profit corporation for the purpose of administering a joint self-insurance pool and assisting members to prevent and reduce losses and injuries to the School District property and persons which might result in claims being made against members of SORSA. Member school districts agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by SORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and educators' errors and omissions liability insurance.

Each member school district has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of SORSA are managed by an elected board of not more than nine directors. Only superintendents, treasurers, or business managers of member school districts are eligible to serve on the board. No school district may have more than one representative on the board at any time. Each member school district's control over the budgetary and financing of SORSA is limited to its voting authority and any representative it may have on the board of directors. Financial information can be obtained from SORSA at 8050 N. High St., Suite 160, Columbus, Ohio 43235.

Public Entity Shared Risk Pool

Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust - The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

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

NOTE 15 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned 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 constraints placed on fund balance for the major governmental funds and other governmental funds are presented below:

| Fund Balances | General | Other Governmental Funds | Total |
|------------------------------------|--------------------|-----------------------------|--------------------|
| <i>Nonspendable</i> | | | |
| Inventories | \$3,327 | \$0 | \$3,327 |
| Prepaid Items | 3,890 | 0 | 3,890 |
| Unclaimed Monies | 3,454 | 0 | 3,454 |
| <i>Total Nonspendable</i> | 10,671 | 0 | 10,671 |
| <i>Restricted for</i> | | | |
| Athletic Programs | 0 | 2,485 | 2,485 |
| <i>Committed to</i> | | | |
| Capital Improvements | 250,917 | 0 | 250,917 |
| <i>Assigned to</i> | | | |
| Public School Support | 10,886 | 0 | 10,886 |
| Purchases on Order | 19,251 | 0 | 19,251 |
| <i>Total Assigned</i> | 30,137 | 0 | 30,137 |
| <i>Unassigned (Deficit)</i> | 3,204,031 | (806) | 3,203,225 |
| <i>Total Fund Balances</i> | \$3,495,756 | \$1,679 | \$3,497,435 |

NOTE 16 – SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances 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 is \$20,478 in the General Fund.

NOTE 17 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability

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

of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2014, if applicable, cannot be determined at this time.

Litigation

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

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Miami County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

| | Budgeted Amounts | | | Variance With Final Budget Positive (Negative) |
|---------------------------------------|--------------------|--------------------|--------------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Intergovernmental | \$526,709 | \$526,709 | \$623,464 | \$96,755 |
| Investment Earnings | 8,000 | 8,000 | 9,287 | 1,287 |
| Tuition and Fees | 12,457,126 | 12,457,126 | 12,729,072 | 271,946 |
| Gifts and Donations | 0 | 0 | 8,122 | 8,122 |
| Charges for Services | 35,000 | 35,000 | 31,985 | (3,015) |
| Miscellaneous | 95,000 | 95,000 | 117,425 | 22,425 |
| Total Revenues | <u>13,121,835</u> | <u>13,121,835</u> | <u>13,519,355</u> | <u>397,520</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 537,619 | 546,224 | 528,864 | 17,360 |
| Special | 8,292,593 | 8,445,595 | 7,729,520 | 716,075 |
| Support Services: | | | | |
| Pupils | 3,337,023 | 3,384,928 | 3,143,347 | 241,581 |
| Instructional Staff | 424,591 | 430,529 | 395,224 | 35,305 |
| Board of Education | 21,769 | 21,713 | 14,343 | 7,370 |
| Administration | 1,391,726 | 1,431,856 | 1,238,342 | 193,514 |
| Fiscal | 216,638 | 233,076 | 222,309 | 10,767 |
| Business | 184,830 | 201,851 | 192,662 | 9,189 |
| Operation and Maintenance of Plant | 110,499 | 113,213 | 93,561 | 19,652 |
| Pupil Transportation | 4,010 | 4,000 | 980 | 3,020 |
| Central | 907 | 906 | 533 | 373 |
| Capital Outlay | 30,078 | 30,000 | 11,879 | 18,121 |
| Total Expenditures | <u>14,552,283</u> | <u>14,843,891</u> | <u>13,571,564</u> | <u>1,272,327</u> |
| Excess of Revenues Under Expenditures | (1,430,448) | (1,722,056) | (52,209) | 1,669,847 |
| Other Financing Sources: | | | | |
| Refund of Prior Year Expenditures | 7,500 | 7,500 | 31,055 | 23,555 |
| Net Change in Fund Balance | (1,422,948) | (1,714,556) | (21,154) | 1,693,402 |
| Fund Balance at Beginning of Year | 4,057,004 | 4,057,004 | 4,057,004 | 0 |
| Prior Year Encumbrances Appropriated | 15,559 | 15,559 | 15,559 | 0 |
| Fund Balance at End of Year | <u>\$2,649,615</u> | <u>\$2,358,007</u> | <u>\$4,051,409</u> | <u>\$1,693,402</u> |

See Accompanying Notes to the Supplemental Information

Miami County Educational Service Center

Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2014

NOTE 1 - BUDGETARY PROCESS

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's 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 statement 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 Board.

The Educational Service Center's Board adopts an annual appropriations resolution, which is the Board's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund/function level for the General Fund and at the fund level for all other 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 appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from the prior fiscal year. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during 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 balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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).

Miami County Educational Service Center
Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2014

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

3. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned of fund balance (GAAP basis).
4. The change in the fair value of investments is not included on the budget basis operating statement. This amount is included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance

| | General Fund |
|--|-----------------|
| GAAP Basis | \$659,727 |
| Revenue Accruals | (834,356) |
| Expenditure Accruals | 171,800 |
| Encumbrances | (20,478) |
| Change in Fair Value of Investments Fiscal Year 2014 | (319) |
| Change in Fair Value of Investments Fiscal Year 2013 | 2,472 |
| Budget Basis | (\$21,154) |

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Dave Yost • Auditor of State

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

Miami County Educational Service Center
Miami County
2000 West Stanfield Road
Troy, Ohio 45373

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Miami County Educational Service Center, Miami County, (the Center) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 25, 2016, wherein we noted the Center adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

April 25, 2016



Dave Yost • Auditor of State

MIAMI COUNTY EDUCATIONAL SERVICE CENTER

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2016**