



Dave Yost • Auditor of State

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Shelby County Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial 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 modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shelby County Educational Service Center, Shelby County, Ohio, as of June 30, 2014, and the respective changes in modified cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2(B).

Accounting Basis

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

Emphasis of Matter

As discussed in Note 13 to the financial statements, effective July 1, 2014, the Center merged with the Logan County and Hardin County Educational Service Centers to form the Midwest Regional Educational Service Center. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

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

Management's Discussion & Analysis includes tables of net cash position, changes in net cash position, governmental activities, governmental fund cash balances, and general fund cash receipts and disbursements. This information provides additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedules for the General fund and Alternative School fund provide additional analysis and are not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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

October 13, 2014

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**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

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

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net cash position of governmental activities increased \$380,301 which represents a 33.38% increase from 2013.
- General cash receipts accounted for \$459,826 or 9.69% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$4,285,307 or 90.31% of total governmental activities cash receipts of \$4,745,133.
- The Center had \$4,364,832 in cash disbursements related to governmental activities; \$4,285,307 of these cash disbursements were offset by program specific charges for services and grants and contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$459,826 were adequate to provide for these programs.
- The Center's major governmental funds are the general fund and the alternative school fund. The general fund had \$3,398,234 in cash receipts and other financing sources and \$3,057,451 in cash disbursements and other financing uses. During fiscal year 2014, the general fund's fund cash balance increased \$340,783 from a balance of \$705,290 to \$1,046,073.
- The alternative school fund had \$203,861 in cash receipts and \$181,500 in cash disbursements and other financing uses. During fiscal year 2014, the alternative school fund's fund balance increased \$22,361 from \$389,743 to \$412,104.

Using these Modified Cash Basis Financial Statements

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Reporting the Center as a Whole

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

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

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

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

In the statement of net position - modified cash basis and the statement of activities - modified cash basis, the governmental activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net position - modified cash basis and statement of activities - modified cash basis can be found on pages 15-16 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 11. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund and the alternative school fund.

Governmental Funds

All of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

Governmental fund information helps you determine whether there are more or fewer modified cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the modified cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross revenues and expenses on the fund financial statements to the statement of activities - modified cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities - modified cash basis. The governmental fund statements can be found on pages 17-18 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The Center also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. The Center also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the Center's fiduciary activities are reported in separate statements of fiduciary net position - modified cash basis and changes in fiduciary net position - modified cash basis on pages 19 and 20. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-38 of this report.

Supplementary Information

The Center has presented budgetary comparison schedules for the general and the major special revenue fund as supplementary information on pages 39-41 of this report.

The Center as a Whole

Recall that the statement of net position provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net cash position at June 30, 2014 and June 30, 2013.

Net Cash Position		
	Governmental Activities 2014	Governmental Activities 2013
Assets:		
Equity in pooled cash and cash equivalents	\$1,519,696	\$1,139,395
Total assets	1,519,696	1,139,395
Net Cash Position:		
Restricted	61,519	44,362
Unrestricted	1,458,177	1,095,033
Total net cash position	\$1,519,696	\$1,139,395

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

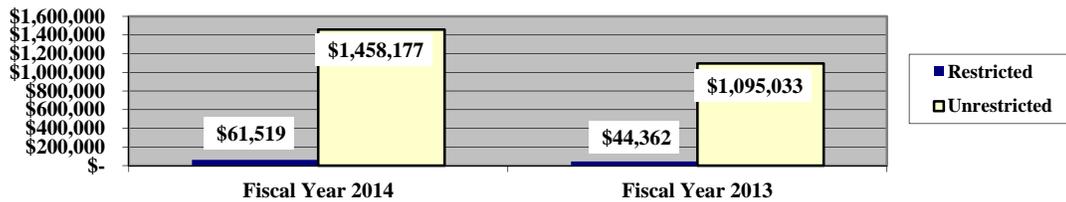
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Over time, net cash position can serve as a useful indicator of a government's financial position. At June 30, 2014, the Center's total net cash position was \$1,519,696.

A portion of the Center's net cash position, \$61,519 represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash position of \$1,458,177 may be used to meet the Center's ongoing obligations to students, school districts, and creditors.

The graph below presents the Center's governmental activities restricted and unrestricted net position for fiscal year 2014 and 2013.

Governmental Activities - Restricted and Unrestricted Net Cash Position



The table below shows the change in net cash position for fiscal year 2014 and 2013.

Change in Net Cash Position		
	Governmental Activities 2014	Governmental Activities 2013
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$2,839,440	\$3,169,545
Operating grants and contributions	1,445,867	1,067,441
General cash receipts:		
Grants and entitlements	325,944	302,498
Investment earnings	3,314	4,504
Other	130,568	80,409
Total cash receipts	<u>4,745,133</u>	<u>4,624,397</u>
Cash Disbursements:		
Program expenses:		
Instruction:		
Regular	532,636	592,468
Special	772,599	705,190

(Continued)

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

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

	Governmental Activities 2014	Governmental Activities 2013
Cash Disbursements: (Continued)		
Support services:		
Pupil	1,315,162	1,394,671
Instructional staff	909,347	1,090,174
Board of education	42,742	35,464
Administration	366,375	560,456
Fiscal	177,385	186,550
Business	1,872	10,700
Operations and maintenance	3,473	11,746
Pupil transportation	32,355	1,936
Central	23,174	142,435
Operation of non-instructional services:		
Other non-instructional services	164,516	-
Extracurricular	7,525	261
Debt service:		
Principal retirement	13,640	12,126
Interest and fiscal charges	2,031	2,834
Total cash disbursements	<u>4,364,832</u>	<u>4,747,011</u>
Change in net cash position	<u>380,301</u>	<u>(122,614)</u>
Net cash position at beginning of year	<u>1,139,395</u>	<u>1,262,009</u>
Net cash position at end of year	<u><u>\$1,519,696</u></u>	<u><u>\$1,139,395</u></u>

Governmental Activities

Net cash position of the Center's governmental activities increased \$380,301. Total governmental cash disbursements of \$4,364,832 were offset by program cash receipts of \$4,285,307 and general cash receipts of \$459,826. Program cash receipts supported 98.18% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 59.84% of total governmental cash receipts.

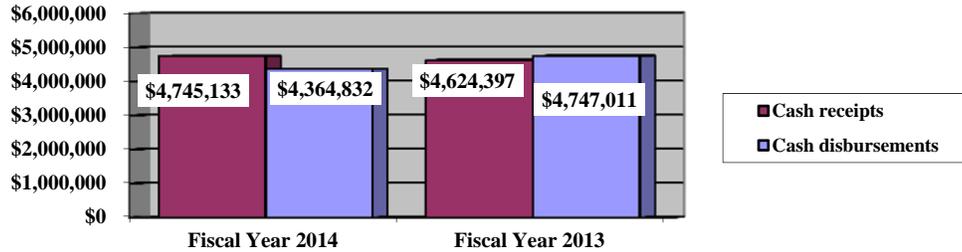
The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$2,871,885 or 65.80% of total governmental cash disbursements for fiscal 2014.

The graph below presents the Center's governmental activities cash receipts and cash disbursements for fiscal year 2014 and 2013.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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Governmental Activities - Cash Receipts and Disbursements



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. A comparative analysis between 2014 and 2013 is also shown.

Governmental Activities

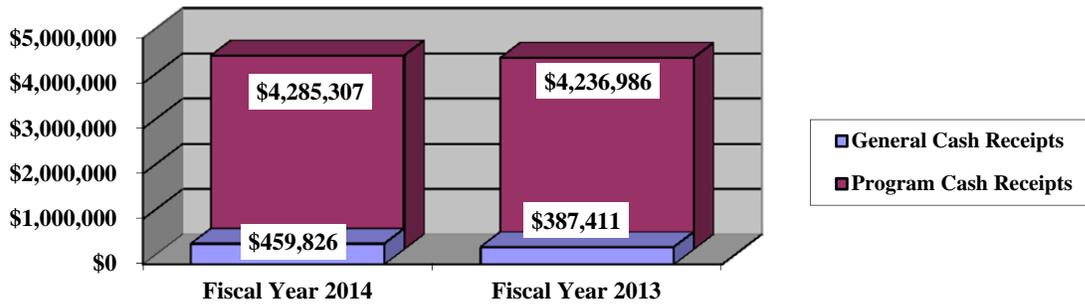
	Total Cost of Services 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program cash disbursements:				
Instruction:				
Regular	\$532,636	(\$95,413)	\$592,468	\$110,704
Special	772,599	59,911	705,190	78,128
Support services:				
Pupil	1,315,162	65,364	1,394,671	130,298
Instructional staff	909,347	33,353	1,090,174	68,598
Board of education	42,742	3,314	35,464	3,929
Administration	366,375	(34,768)	560,456	65,514
Fiscal	177,385	13,755	186,550	20,668
Business	1,872	145	10,700	1,185
Operations and maintenance	3,473	268	11,746	1,432
Pupil transportation	32,355	2,398	1,936	(1,204)
Central	23,174	1,797	142,435	15,780
Operation of non-instructional services:				
Other non-instructional services	164,516	12,757		
Extracurricular	7,525	973	261	33
Debt service:				
Principal retirement	13,640	13,640	12,126	12,126
Interest and fiscal charges	2,031	2,031	2,834	2,834
Total cash disbursements	<u>\$4,364,832</u>	<u>\$79,525</u>	<u>\$4,747,011</u>	<u>\$510,025</u>

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

The graph below presents the Center's governmental activities cash receipts for fiscal year 2014 and 2013.

Governmental Activities - General and Program Cash Receipts



The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$1,519,696, which is higher balance than last year's total balance of \$1,139,395. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2014 and 2013.

	Fund Cash Balance June 30, 2014	Fund Cash Balance June 30, 2013	Increase	Percentage Change
General	\$1,046,073	\$705,290	\$340,783	48.32 %
Alternative School	412,104	389,743	22,361	5.74 %
Other Governmental	61,519	44,362	17,157	38.67 %
Total	\$1,519,696	\$1,139,395	\$380,301	33.38 %

General Fund

The Center's general fund cash balance increased \$340,783. The table that follows assists in illustrating the cash financial activities of the general fund.

	2014 Amount	2013 Amount	Increase (Decrease)	Percentage Change
Cash Receipts:				
Contract services	\$2,812,789	\$3,089,670	(\$276,881)	(8.96) %
Earnings on investments	3,314	4,504	(1,190)	(26.42) %
Other revenues	131,468	92,235	39,233	42.54 %
Intergovernmental	325,944	302,498	23,446	7.75 %
Total	\$3,273,515	\$3,488,907	(\$215,392)	(6.17) %
Cash Disbursements:				
Instruction	\$805,685	\$768,559	\$37,126	4.83 %
Support services	2,057,967	2,676,192	(618,225)	(23.10) %
Other non-instructional services	164,516	-	164,516	100.00 %
Extracurricular	7,525	261	7,264	2,783.14 %
Debt service	15,671	14,842	829	5.59 %
Total	\$3,051,364	\$3,459,854	(\$408,490)	(11.81) %

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

The most significant decrease in cash receipts occurred in contract service revenue receipts. The decrease in contract service revenue receipts was due to a decrease in the services provided to other schools. The decrease in earnings on investments was due primarily to the decrease in interest rates. The decrease in cash disbursements in support services was due primarily to the decrease in contracted services for speech and occupational therapy.

Alternative School Fund

The alternative school fund had \$203,861 in cash receipts and \$181,500 in cash disbursements and other financing uses. During fiscal year 2014, the alternative school fund's fund cash balance increased \$22,361 from \$389,743 to \$412,104.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

At June 30, 2014, the Center had \$17,916 in capital lease obligations. Of this total, \$12,549 is due within one year and \$5,367 is due within greater than one year.

The Center is not permitted to issue debt. See Note 7 to the modified cash basis financial statements for additional information on the Center's capital leases.

Current Financial Related Activities

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city districts in Shelby County, State foundation revenue, and grants. Still, the future financial stability of the Center is not without challenges.

The first challenge is that the Center will be affected by the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact State funding. The Center constantly strives to provide more services in the most cost efficient manner.

Second, the Center will again endure extensive budget cuts from the State's fiscal year 2014 and 2015 budget. The State will not provide supervisory unit funding to ESCs in fiscal year 2014. The Center has been forced to ask the locals to pay for the supervisory costs. While the Center has applied to other sources for funding and has made budget cuts, any shortfall in the revenue will fall on the districts, which will have to increase their share of funding to continue the programs.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future. To counterbalance the loss of revenue from the State and district services mentioned above, the Center has reduced employees and reduced operating costs where feasible.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

In addition, the Center conducted a merger feasibility study funded through the Ohio Department of Development's Local Government Innovation Fund. The merger feasibility results were reviewed and analyzed in fiscal year 2014. As a result, the Shelby County ESC, Hardin County ESC, and Logan County ESC will merge as the Midwest Regional ESC as of July 1, 2014.

With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Keith Thomas, Treasurer/Chief Financial Officer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

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**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,519,696
Total assets	<u>1,519,696</u>
Net cash position:	
Restricted for:	
Locally funded programs	58,465
State funded programs	3,054
Unrestricted	1,458,177
Total net cash position	<u>\$1,519,696</u>

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	<u>Cash</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u>
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Receipts and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Cash Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$532,636	\$39,030	\$589,019	\$95,413
Special	772,599	712,688		(59,911)
Support services:				
Pupil	1,315,162	968,779	281,019	(65,364)
Instructional staff	909,347	561,482	314,512	(33,353)
Board of education	42,742	39,428		(3,314)
Administration	366,375	140,532	260,611	34,768
Fiscal	177,385	163,630		(13,755)
Business	1,872	1,727		(145)
Operations and maintenance	3,473	3,199	6	(268)
Pupil transportation	32,355	29,957		(2,398)
Central	23,174	21,377		(1,797)
Operation of non-instructional services:				
Other non-instructional services	164,516	151,759		(12,757)
Extracurricular activities	7,525	5,852	700	(973)
Debt service:				
Principal retirement	13,640			(13,640)
Interest and fiscal charges	2,031			(2,031)
Total governmental activities	<u>\$4,364,832</u>	<u>\$2,839,440</u>	<u>\$1,445,867</u>	<u>(79,525)</u>
General cash receipts:				
Grants and entitlements not restricted to specific programs				325,944
Investment earnings				3,314
Miscellaneous				130,568
Total general receipts				<u>459,826</u>
Change in net cash position				380,301
Net cash position at beginning of year				<u>1,139,395</u>
Net cash position at end of year				<u>\$1,519,696</u>

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	<u>General</u>	<u>Alternative School</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$1,046,073	\$412,104	\$61,519	\$1,519,696
Total assets	<u>1,046,073</u>	<u>412,104</u>	<u>61,519</u>	<u>1,519,696</u>
Fund cash balances:				
Restricted:				
Other purposes			61,519	61,519
Committed:				
Other purposes		412,104		412,104
Assigned:				
Student instruction	3,103			3,103
Student and staff support	145,154			145,154
Operation of non-instructional	2,115			2,115
Unassigned	895,701			895,701
Total fund cash balances	<u>\$1,046,073</u>	<u>\$412,104</u>	<u>\$61,519</u>	<u>\$1,519,696</u>

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	<u>General</u>	<u>Alternative School</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:				
From local sources:				
Earnings on investments	\$3,314			\$3,314
Contributions and donations	900	\$1,361	\$8,238	10,499
Contract services	2,812,789		26,651	2,839,440
Other local revenues	130,568			130,568
Intergovernmental - intermediate	20,589	202,500	135,723	358,812
Intergovernmental - state	305,355		339,275	644,630
Intergovernmental - federal			757,870	757,870
Total cash receipts	<u>3,273,515</u>	<u>203,861</u>	<u>1,267,757</u>	<u>4,745,133</u>
Cash disbursements:				
Current:				
Instruction:				
Regular	33,086	112,864	386,686	532,636
Special	772,599			772,599
Support services:				
Pupil	1,028,971		286,191	1,315,162
Instructional staff	600,579	443	308,325	909,347
Board of education	42,742			42,742
Administration	147,422	31,356	187,597	366,375
Fiscal	177,385			177,385
Business	1,872			1,872
Operations and maintenance	3,467		6	3,473
Pupil transportation	32,355			32,355
Central	23,174			23,174
Operation of non-instructional services:				
Other operation of non-instructional	164,516			164,516
Extracurricular activities	7,525			7,525
Debt service:				
Principal retirement	13,640			13,640
Interest and fiscal charges	2,031			2,031
Total cash disbursements	<u>3,051,364</u>	<u>144,663</u>	<u>1,168,805</u>	<u>4,364,832</u>
Excess of cash receipts over cash disbursements	<u>222,151</u>	<u>59,198</u>	<u>98,952</u>	<u>380,301</u>
Other financing sources (uses):				
Transfers in	36,837			36,837
Transfers (out)		(36,837)		(36,837)
Advances in	87,882		6,087	93,969
Advances (out)	(6,087)		(87,882)	(93,969)
Total other financing sources (uses)	<u>118,632</u>	<u>(36,837)</u>	<u>(81,795)</u>	
Net change in fund cash balances	340,783	22,361	17,157	380,301
Fund cash balances at beginning of year	705,290	389,743	44,362	1,139,395
Fund cash balances at end of year	<u>\$1,046,073</u>	<u>\$412,104</u>	<u>\$61,519</u>	<u>\$1,519,696</u>

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

	Private Purpose Trust	Investment Trust	Agency
Assets:			
Equity in pooled cash and cash equivalents	\$34,648	\$681,895	\$9,287
Investments (Stock)	15,452	15,452	
Total assets	50,100	697,347	9,287
Liabilities:			
Due to other organizations			9,287
Total liabilities			\$9,287
Net position:			
Held in trust for scholarships	50,100		
Net cash assets available to pool participants		697,347	
Total net position	\$50,100	\$697,347	

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Private Purpose Trust	Investment Trust
Additions:		
Interest	\$8,016	\$10,857
Gifts and contributions	5,495	
Total additions	13,511	10,857
 Deductions:		
Distributions to participants		10,857
Scholarships awarded	8,700	
Capital transactions		145,181
Total deductions	8,700	156,038
 Change in net position	4,811	(145,181)
 Net cash position at beginning of year	45,289	842,528
 Net cash position at end of year	\$50,100	\$697,347

See accompanying notes to the basic financial statements.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

1. DESCRIPTION OF THE ENTITY

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

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 25 non-certified and 34 certified employees to provide services to approximately 5,123 students in seven local districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 26 school districts, 5 educational service centers, 3 parochial schools and 4 community schools. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center are included in an investment trust fund.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

The SOEPC is a purchasing cooperative made up of nearly 100 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Shelby County Schools Consortium

The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Sun Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district and the ESC.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Public Entity Risk Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Shelby County School Health Consortium

The Shelby County School Health Consortium (the "Consortium") is an insurance purchasing pool among seven local school districts and the Shelby Educational Service Center (which includes the Western Ohio Computer Organization). The purpose of the Consortium is to achieve more favorable rates for employee insurance by creating a larger pool on which to base the insurance experience. The Consortium acts to provide health/surgical and dental benefits to its participants at a lower rate than if individual districts acted independently. Each participant pays monthly premiums to the provider Anthem Blue Cross/Blue Shield for dental and health insurance and Sun Life Insurance Company for life insurance.

The consortium is governed by an administrative committee consisting of the superintendent from each participating school district and the Educational Service Center. The degree of control exercised is limited to its representation on the committee. Financial information can be obtained from Larry Lentz, Managing Partner, Pinnacle Advisory Group, 7333 Paragon Road, Centerville, OH 45459.

B. Basis of Accounting

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

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

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

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

1. Governmental Funds

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

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

Alternative school - The alternative school fund is used to account for money committed to alternative educational programs for existing and new at-risk and delinquent youth.

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

2. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the Center is fiscal agent and to account for a stock bequest benefiting Sidney City School District. The Center also acts in a trustee capacity as an agent for other organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These activities are reported in an agency fund.

D. Basis of Presentation

1. Government-wide Financial Statements

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

E. Budgetary Process

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

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

F. Cash and Investments

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2014, investments were limited to common stock (see below), a U.S. Government money market and negotiable certificates of deposit. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (See Note 6). No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$3,314, which includes \$1,967 assigned from other Center funds.

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

K. Fund Cash Balance

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

L. Net Cash Position

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

M. Interfund Activity

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

A schedule of the Center's interfund transactions is presented in Note 5.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Compliance

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

B. Change in Accounting Principles

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

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

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

A. Cash on Hand

At fiscal year end, the Center had \$75 in un-deposited cash on hand which is included on the financial statements as part of "equity in pooled cash and cash equivalents".

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all Center deposits was \$1,443,209. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$915,551 of the Center's bank balance of \$1,463,596 was exposed to custodial risk as discussed below, while \$548,045 was covered by FDIC.

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

C. Investments

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

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Investment Maturities</u>		
			<u>6 months or less</u>	<u>7 to 12 months</u>	<u>Indefinite</u>
Stock	\$30,904	\$544,057			\$544,057
U.S. Government money market	152,242	152,242	\$152,242		
Negotiable CD's	<u>650,000</u>	<u>650,512</u>	<u>550,459</u>	<u>100,053</u>	
Total	<u>\$833,146</u>	<u>\$1,346,811</u>	<u>\$702,701</u>	<u>\$100,053</u>	<u>\$544,057</u>

The weighted average maturity of investments is 0.15 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The stock portfolio is in the name of the Center and is not subject to custodial credit risk. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: The Center's U.S. Government money market carries a rating of AAAM by Standard & Poor's. The Center's stocks were rated ranging from AAA to BB-, Aaa to B3, and A to BB by Standard & Poor's, Moody's Investor Services, and Fitch Ratings, respectively. The Center's investment policy does not further limit its investment choices.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2014:

<u>Investment type</u>	<u>Market Value</u>	<u>% to Total</u>
Stock	\$544,057	40.40
U.S. Government money market	152,242	11.30
Negotiable CD's	650,512	48.30
Total	<u>\$1,346,811</u>	<u>100.00</u>

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

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

<u>Cash and investments per note:</u>	<u>Carrying Value</u>
Carrying amount of deposits	\$1,443,209
Investments	833,146
Cash on hand	75
Total	<u>\$2,276,430</u>

<u>Cash and investments per statement of net position</u>	<u>Carrying Value</u>
Governmental activities	\$1,519,696
Private-purpose trust funds	50,100
Investment trust fund	697,347
Agency fund	9,287
Total	<u>\$2,276,430</u>

5. INTERFUND TRANSACTIONS

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

<u>Advances from general fund to:</u>	<u>Amount</u>
Non-major governmental funds	\$6,087
<u>Advances from non-major governmental funds to:</u>	
General fund	87,882
Total	<u>\$93,969</u>

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

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

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

5. INTERFUND TRANSACTIONS (Continued)

B. Interfund transfers for the year ended June 30, 2014, consisted of the following, as reported in the fund financial statements:

<u>Transfers to general fund from:</u>	<u>Amount</u>
Alternative school fund	<u>\$36,837</u>

The primary purpose of these transfers is to transfer inactive funds due to the closure of the CLC to the General Fund.

Interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

6. INVESTMENT POOL

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The pool does not issue shares. WOCO is allocated a pro rata share of each investment along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund. The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund.

Condensed cash basis financial information for the investment pool follows:

**Statement of Net Position
June 30, 2014**

Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,245,526
Investments	30,904
Total Assets	<u>2,276,430</u>
Net Position Held in Trust for Pool Participants:	
Internal Portion	1,579,083
External Portion	697,347
Total Net Position Held in Trust for Pool Participants	<u>\$2,276,430</u>

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

6. INVESTMENT POOL (Continued)

**Statement of Changes in Net Position
For Fiscal Year Ended June 30, 2014**

Additions:	
Capital Transaction	\$242,731
Interest	22,187
Total Additions	264,918
Deductions:	
Distributions to Participants	22,187
Total Deductions	22,187
Change in Net Position	242,731
Net Position, Beginning of Year	2,033,699
Net Position, End of Year	\$2,276,430

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 40, "Deposits and Investment Risk Disclosures".

7. CAPITAL LEASES - LESSEE DISCLOSURE

During the current fiscal year and a prior fiscal year, the Center has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier.

Principal payments in fiscal year 2014 totaled \$13,640. This amount is reflected as debt service principal retirement in the general fund.

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

Fiscal Year Ending June 30,	Amount
2015	\$13,456
2016	2,376
2017	2,376
2018	1,188
Total minimum lease payments	19,396
Less amount representing interest	(1,480)
Total	\$17,916

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

8. RISK MANAGEMENT

A. Comprehensive and Employee Health

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2014, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

9. PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$184,043, \$199,351 and \$198,802, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

9. PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

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

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

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

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

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$223,792, \$257,636 and \$254,646, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were not available.

C. Social Security System

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

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

10. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

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

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$12,086, \$24,295 and \$30,365, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$10,677, \$11,261 and \$11,740, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

10. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$17,215, \$19,818 and \$19,588, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

11. CONTINGENCIES

Grants

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

12. OTHER COMMITMENTS

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$141,232
Alternative school fund	140
Other governmental	27,307
Total	<u>\$168,679</u>

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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

13. SUBSEQUENT EVENT

On March 4, 2014, the Shelby, Logan and Hardin Educational Service Centers approved a merger of the Centers into one Center, which will be renamed the Midwest Regional Educational Service Center. The Governing Board of the Shelby, Logan, and Hardin Centers were dissolved as of June 30, 2014 and the merged Center will start effective July 1, 2014.

As of July 1 2014, the Center was no longer the fiscal agent for the Western Ohio Computer Organization.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Budgetary basis receipts:				
From local sources:				
Earnings on investments	\$3,800	\$2,800	\$3,314	\$514
Contract services	2,669,261	2,763,218	2,725,769	(37,449)
Other local revenues	75,315	126,824	130,569	3,745
Intergovernmental - intermediate	20,000	20,000	20,589	589
Intergovernmental - state	322,510	302,286	305,355	3,069
Total budgetary basis receipts	<u>3,090,886</u>	<u>3,215,128</u>	<u>3,185,596</u>	<u>(29,532)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	11,322	13,119	13,107	12
Special	657,756	824,645	773,325	51,320
Support services:				
Pupil	1,140,749	1,123,612	1,051,857	71,755
Instructional staff	704,299	628,725	591,643	37,082
Board of education	64,798	75,648	50,784	24,864
Administration	326,607	152,280	137,823	14,457
Fiscal	207,594	196,585	180,408	16,177
Business	18,695	16,045	14,866	1,179
Operations and maintenance	2,322	3,467	3,467	
Pupil transportation	37,590	38,823	32,050	6,773
Central	25,115	26,115	23,699	2,416
Other operation of non-instructional services		167,680	166,631	1,049
Debt service:				
Principal	13,640	13,640	13,640	
Interest and fiscal charges	2,031	2,031	2,031	
Total budgetary basis disbursements	<u>3,212,518</u>	<u>3,282,415</u>	<u>3,055,331</u>	<u>227,084</u>
Deficiency of budgetary basis receipts under budgetary basis disbursements	<u>(121,632)</u>	<u>(67,287)</u>	<u>130,265</u>	<u>197,552</u>
Other financing sources (uses):				
Transfers in	38,899	38,899	40,236	1,337
Advances in	87,882	87,882	87,882	
Advances (out)			(6,087)	(6,087)
Total other financing sources (uses)	<u>126,781</u>	<u>126,781</u>	<u>122,031</u>	<u>(4,750)</u>
Net change in fund cash balance	5,149	59,494	252,296	192,802
Fund cash balance at beginning of year	540,217	540,217	540,217	
Prior year encumbrances appropriated	47,355	47,355	47,355	
Fund cash balance at end of year	<u>\$592,721</u>	<u>\$647,066</u>	<u>\$839,868</u>	<u>\$192,802</u>

See accompanying notes to the budgetary comparison schedules.

SHELBY COUNTY

**BUDGETARY COMPARISON SCHEDULE
ALTERNATIVE SCHOOL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Budgetary basis receipts:				
From local sources:				
Contributions and donations			\$1,361	\$1,361
Intergovernmental - intermediate	\$180,000	\$180,000	202,500	22,500
Total budgetary basis receipts	<u>180,000</u>	<u>180,000</u>	<u>203,861</u>	<u>23,861</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	145,184	144,285	113,004	31,281
Support Services:				
Instructional staff	16,839	449	443	6
Administration	20,250	33,519	31,356	2,163
Operation & Maintenance	110			
Total budgetary basis disbursements	<u>182,383</u>	<u>178,253</u>	<u>144,803</u>	<u>33,450</u>
Excess of revenues over (under) expenditures	<u>(2,383)</u>	<u>1,747</u>	<u>59,058</u>	<u>57,311</u>
Other financing (uses):				
Transfers (out)	(22,577)	(36,837)	(36,837)	
Total other financing (uses)	<u>(22,577)</u>	<u>(36,837)</u>	<u>(36,837)</u>	
Net change in fund cash balance	(24,960)	(35,090)	22,221	57,311
Fund cash balance at beginning of year	372,630	372,630	372,630	
Prior year encumbrances appropriated	17,113	17,113	17,113	
Fund cash balance at end of year	<u>\$364,783</u>	<u>\$354,653</u>	<u>\$411,964</u>	<u>\$57,311</u>

See accompanying notes to the budgetary comparison schedules.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

Net Change in Fund Cash Balance		
	General fund	Alternative School fund
Cash basis	\$340,783	\$22,361
Funds budgeted elsewhere **	(3,733)	
Adjustment for encumbrances	(84,754)	(140)
Budget basis	\$252,296	\$22,221

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

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**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Special Education_Preschool Grants	84.173	\$11,910	\$11,910
Twenty-First Century Community Learning Centers	84.287	317,792	312,661
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	<u>428,168</u>	<u>435,114</u>
Total U.S. Department of Education		<u>757,870</u>	<u>759,685</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Job and Family Services</i>			
<i> Passed Through Shelby County Department of Job and Family Services</i>			
Temporary Assistance for Needy Families	93.558	11,767	11,767
U.S. DEPARTMENT OF LABOR			
<i>Passed through Ohio Department of Job and Family Services</i>			
<i> Passed Through Shelby County Department of Job and Family Services</i>			
WIA Youth Activities	17.259	<u>85,566</u>	<u>81,442</u>
Total Federal Financial Assistance		<u>\$855,203</u>	<u>\$852,894</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Shelby County Educational Service Center's (the Center's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES AND WORKFORCE INVESTMENT ACT

The Center commingles cash receipts from the U.S. Department of Health and Human Services and U.S. Department of Labor with similar State and Local grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first.



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

Shelby County Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shelby County Educational Service Center, Shelby County, (the Center) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated October 13, 2014, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles. Also as disclosed in Note 13, the Center merged with Logan County and Hardin County Educational Service Centers to form the Midwest Regional Educational Service Center effective July 1, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

October 13, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Shelby County Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Shelby County Educational Service Center's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Shelby County Educational Service Center's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Center's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the Center's compliance for the Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Center's major program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on the Major Federal Program

In our opinion, the Shelby County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

October 13, 2014

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act, CFDA #84.395
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2014-001

Noncompliance

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

**FINDING NUMBER 2014-001
(Continued)**

Ohio Admin. Code § 117-2-03(B) requires the Center to prepare its annual financial reports in accordance with Generally Accepted Accounting Principles (GAAP). However, the Center prepared its annual financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with Generally Accepted Accounting Principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code §117.38, the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Center should prepare its annual financial report in accordance with Generally Accepted Accounting Principles to provide any user with more meaningful and useful financial statements.

Officials' Response: The Shelby County ESC is aware of this compliance issue. The ESC Board approved resolution #45:12 on May 16, 2012, to discontinue the process of the conversion of cash basis to Generally Accepted Accounting Principles. The Board has elected to prepare another comprehensive basis of accounting accepted by the Auditor of State, which substantially conforms to the reporting model prescribed by GASB No. 34. We have considered the cost-benefit relationship in this decision.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**SHELBY COUNTY EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Failure to prepare and file GAAP basis financial statements.	No	Repeated as Finding 2014-001

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SHELBY EDUCATIONAL SERVICE CENTER

SHELBY 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
NOVEMBER 18, 2014**