MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2013

Dave Yost • Auditor of State

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of Madison-Champaign Educational Service Center, Champaign County, Ohio (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the Center prepared these financial statements using cash accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position and results of operations of the Madison-Champaign Educational Service Center as of and for the year ended June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Center also has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 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.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

February 6, 2014

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Governmental Fund Types		
	General	Special Revenue Funds	Totals (Memorandum Only)
Revenues:			
Tuition	$8,143,025		$8,143,025
Earnings on Investments	891		891
Food Services		$44,510	44,510
Classroom Materials and Fees	3,435		3,435
Miscellaneous	279,704	26,575	306,279
Other Local Revenues		261	261
Intergovernmental - Intermediate		104,866	104,866
Intergovernmental - State	1,273,769	189,861	1,463,630
Intergovernmental - Federal		98,020	98,020
Total Cash Receipts	9,700,824	464,093	10,164,917
Expenditures:			
Instruction:			
Regular	225,466	118,669	344,135
Special	2,339,433	51,947	2,391,380
Other Instruction		970	970
Supporting Services:			
Pupils	2,855,089	23,575	2,878,664
Instructional Staff	2,118,427	40,784	2,159,211
Board of Education	19,454		19,454
Administration	1,670,158	1,899	1,672,057
Fiscal Services	324,102	34,787	358,889
Pupil Transportation	6,792	141,376	148,168
Central	114,856	10,833	125,689
Non-Instructional Services:			
Food Service Operations		64,221	64,221
Other	100		100
Total Cash Disbursements	9,673,877	489,061	10,162,938
Total Cash Receipts Over/(Under) Cash Disbursements	26,947	(24,968)	$1,979
Other Financing Receipts/Disbursements:			
Advances-In	12,720	36,290	49,010
Advances-Out	(38,273)	(10,737)	(49,010)
Total Other Financing Receipts/(Disbursements)	(25,553)	25,553	
Excess of Cash Receipts and other Financing Receipts Over Cash Disbursements and Other Financing Receipts/Disbursements	1,394	585	1,979
Fund Cash Balances, July 1	1,349,758	7,309	1,357,067
Fund Cash Balances, June 30	1,351,152	7,894	1,359,046
Restricted		7,894	7,894
Assigned	192,914		192,914
Unassigned (Deficit)	1,158,238		1,158,238
Fund Cash Balances, June 30	$1,351,152	$7,894	$1,359,046

The notes to the financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Agency Fund
Operating Cash Receipts:	
Charges for Services	$2,468
Operating Cash Disbursements:	
Employees Retirement and Insurance	71
Other Operating Expenses	2,397
Total Operating Cash Disbursements	2,468
Excess of Receipts Over (Under) Disbursements	
Fund Cash Balance, July 1, 2012	-
Fund Cash Balance, June 30, 2013	$0

The notes to the financial statements are an integral part of this statement.

1. DESCRIPTION OF THE SCHOOL CENTER

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is an Educational Service Center as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative and other services to the Graham, Jefferson, Jonathan Alder, Madison-Plains, West Liberty-Salem, Triad Local School Districts, London and Urbana City School Districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school Districts in areas they are unable to finance or staff independently. The Center is staffed by 114 non-certified employees and 89 certified employees.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the Center chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

A. The Reporting Entity

The Center's 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*". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations, food service, and student related activities of the Center. Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the Center (the primary government). The Center has no component units.

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

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. This organization is governed by a board of directors consisting of 14 members; the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney Ohio 45365.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 districts in 22 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 MEC. The Governing Board of MEC consists of one voting representative from each member district. To obtain financial information, write to the Metropolitan Educational Council, James Grube, who serves as Executive Director, 2100 Citygate Drive, Columbus, Ohio 43219.

2. Public Entity Purchasing Pools

Northern Buckeye Educational Council Group Retrospective Program

The Educational Service Center participates in a group retrospective rating plan for workers' compensation as established under Section 4123.17.73 of the Ohio Revised Code. The Northern Buckeye Educational Council Group Retrospective Program is administered by Sheakley. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Champaign, Delaware, Marion, Union Schools Welfare Benefit Association Trust

The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust (Trust), is a public entity shared risk pool consisting of eight school districts and the Madison/Champaign County and Delaware/Union County Educational Service Centers. The Trust is organized as a Voluntary Employee Benefit association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee concerning aspects of the administration of the Trust.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of monthly premiums. Financial information can be obtained from the Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust, Huntington Center HC1142, Columbus, Ohio 43287.

The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust disbanded on August 31, 2012.

Stark County Schools' Council of Governments (SCSCOG)

The Stark County Schools' Council of Governments (SCSCOG) is a consortium of school districts and related agencies serving the greater Stark County area. Established in 1987, the Stark County Schools' Council of Governments serves member schools, libraries, colleges, and related agencies. The Stark County Schools' council exists primarily for the promotion of cooperative agreements and contracts among its members and private persons, corporations and agencies. The council's main ventures are in the areas of insurance, workers' compensation and cooperative purchasing.

Formed under O.R.C. Section 167, the council is managed by a governing board and executive board. Financial information can be obtained from the Stark County Schools' Council of Governments, 2100 38th Street NW, Door #1, Canton, OH 44709.

The Madison-Champaign Educational Service Center became a member September 1, 2012.

B. Fund Accounting

The Center uses fund accounting to segregate cash and investments which are restricted to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities.

For financial statement presentation purposes, the various funds of the Center are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the Center are financed. The following are the Center's governmental fund types:

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Center's fiduciary funds include agency funds.

C. Basis of Accounting

The Center's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for 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.

D. 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's 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 Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds.

E. Cash and Investments

To improve cash management, cash received by the Center is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Center records. Interest in the pool is included in the cash balances reported by fund type.

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 2013, the Center invested in nonnegotiable certificates of deposit and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2(a)7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2013 amounted to $891.

F. Restricted Assets

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

G. Inventory and Prepaid Items

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

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets.

I. Interfund Receivables/Payables

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

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Center's cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

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

L. Long-Term Obligations

The Center's cash basis does not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure is reported at inception.

M. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Total Columns on Financial Statements

Total columns on the financial statements are captioned “Total- (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund–type eliminations have not been made in the aggregation of this data.

O. Fund Balance

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

Non-spendable - The non-spendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

3. COMPLIANCE

Ohio Administrative Code, §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 regulatory 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.

4. DEPOSITS AND INVESTMENTS

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

Active monies are public monies determined to be necessary to meet current demands upon the Center treasury. Active 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 Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

4. DEPOSITS AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio).

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.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2013, $916,162 of the Center's bank balance of $1,416,162 was exposed to custodial risk as discussed below, while $500,000 was covered by the 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.

B. Investments

As of June 30, 2013, the Center had the following investment and maturity:

		Investment Maturities				
Investment type	**Fair Value**	**6 months or less**	**7 to 12 months**	**13 to 18 months**	**19 to 24 months**	**Greater than 24 months**
STAR Ohio	$7,896	$7,896				

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

Credit Risk: STAR Ohio carries a rating of AAAm by Standard and Poor's. The Center has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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 investment type held by the Center at June 30, 2013:

Investment type	Fair Value	% of Total
STAR Ohio	$7,896	100.00

5. RISK MANAGEMENT

A. Risk Pool Membership

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the Center contracted for the following insurance coverages:

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

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

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

B. Employee Medical Benefits

Prior to September 1, 2012, the Center provided health insurance, prescription drug benefits, and dental insurance through the Champaign, Delaware, Marion, Union School Employee Welfare Association Trust (Trust) (Note 2.A.), vision insurance through Vision Service Plan, and life insurance through Fort Dearborn Life. Beginning September 1, 2012, the Center provides health insurance, prescription drug benefits, dental insurance, vision insurance, and life insurance through the Stark County Schools' Council of Governments (SCSCOG) (Note 2.A.) Insurance premiums vary with each employee depending on marital and family status.

C. Workers' Compensation

For fiscal year 2013, the Center participated in the Northern Buckeye Educational Council Group Retrospective Program (GRP), an insurance purchasing pool (Note 2.A). The intent of the GRP is to achieve a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating schools is calculated as one experience and a common premium rate is applied to all schools in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. The BWC then evaluates the GRP's claim losses at 12, 24, and 36 months following the end of the GRP retro policy year. If the BWC findings result in a group retrospective premium calculation lower than the group's standard premium, participating employers may be entitled to a refund.

6. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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 Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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 2013, plan members were required to contribute 10 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 10 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, 2013, 2012, and 2011 were $662,411, $597,340, and $575,008, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. 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 2013, 13.1 percent of annual covered salary was the portion used to fund pension obligations and death benefits. 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 10 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, 2013, 2012 and 2011 were $299,965, $237,445, and $220,723, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, all five members of the Board of Education have elected SERS.

7. POST-EMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description – The Center contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 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 2013, 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, 2013, 2012, and 2011, were $50,955, $45,949, and $44,231, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

7. POST-EMPLOYMENT BENEFITS (Continued)

B. School Employee Retirement System

Plan Description – The Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the 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.

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 401h.

For 2013, the portion of the Center's contributions that were allocated for health care was equal to 0.16 percent of covered payroll. For the fiscal years ended June 30, 2013, 2012, and 2011 were $3,664, $10,283, and $26,726, respectively; 100 percent has been contributed for fiscal year 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were $16,945, $14,022, and $14,204, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

8. CONTINGENCIES

A. Grants

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

B. Litigation

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

9. STATE FUNDING

State funding is provided to support the ESC basic operations and statutorily mandated services. In the context of regular public school districts and community schools that receive services form ESCs this state funding amounts to about $90 million per year at the state level which makes up about one third of the total annual ESC funding. It consists of two major funding categories:

1. Unit Funding
2. Per-Pupil Allocation

A. Unit Funding

ORC Section 3317.11(B) provides for state funding for approved gifted education and preschool special education classroom and supervisory units operating at an ESC.

B. Per-Pupil Allocation

The per-pupil funding in the permanent section of the law does not apply to the FY 2012 and 2013. Am. Sub. H.B. 153 contains a “notwithstanding” provision that overrides the permanent law section. According to the bill’s provision, ESCs receive an amount of funding that is reduced by a percentage from what they received in the previous year. For the year ending June 30, 2013, the percentage reduction is 15% from FY 2012.

10. INTERFUND ACTIVITY

Fund	Advances In	Advances Out
General Fund	$12,720	$36,290
Food Service Fund		8,169
School Supplies		1,983
Bus Driver Program Fund	15,683	1,554
OPES Fund	99	
Parent Mentor FY12 Fund		1,014
Parent Mentor FY13 Fund	20,508	
Total	$49,010	$49,010

11. FUND BALANCES

Fund Balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

11. FUND BALANCES (Continued)

Fund Balance	General	Special Revenue
Restricted for:		
Lunchroom Fund		$ 747
Adult Basic Aid		5,401
Activity Accounts		837
Mac-Project		20
Resident Educator/OPES		700
Early Childhood Spec Ed		7
Parent Mentor Grant		182
Total Restricted		7,894
Assigned for:		
Encumbrances	$ 40,188	
Subsequent appropriations	106,739	
Latchkey Program	43,221	
Public School Support	2,151	
School Supplies	615	
Total Assigned	192,914	
Unassigned	1,158,238	
Total Fund Balances	$1,351,152	$7,894

Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Madison-Champaign Educational Service Center, Champaign County, (the Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2014, wherein we issued an adverse opinion as the Center prepared its financial statements using the cash accounting basis rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

Entity's Response to Finding

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

February 6, 2014

SCHEDULE OF FINDINGS
JUNE 30, 2013

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

FINDING NUMBER 2013-001

Noncompliance

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

Ohio Admin. 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 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 Section 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 the financial statements according to generally accepted accounting principles to help provide users with more complete and meaningful financial statements.

Officials' Response:

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

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2012-01	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B) – Failure to prepare financial statements in accordance with accounting principles generally accepted in the United States of America.	No	Repeated as Finding Number 2013-001

MADISON-CHAMPAIGN EDUCATION SERVICE CENTER

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 11, 2014