



Dave Yost • Auditor of State

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY
JUNE 30, 2017 AND 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Allen County Educational Service Center
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio (the Service Center), as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial 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 Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Service Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of 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 the Allen County Educational Service Center, Allen County, Ohio, as of June 30, 2017 and June 30, 2016, and the respective changes in modified cash financial position thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, 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 September 24, 2018, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 24, 2018

Allen County Educational Service Center
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The discussion and analysis of the Allen County Educational Service Center's ("Service Center") financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- q General receipts accounted for \$540,147 or 6 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$8,457,779 or 94 percent of total receipts of \$8,997,926.
- q In total, program disbursements were \$8,345,529.
- q In total, net position increased \$652,397.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center. 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 Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2017, the General Fund and Bus Driver Training Program Fund are the Service Center's most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on the modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. 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.

Allen County Educational Service Center
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the Service Center's programs and services, including instruction and support services.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds include the General Fund and the Bus Driver Training Program Fund.

Governmental Funds - All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the Service Center's Fiduciary Responsibilities

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 13. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

Allen County Educational Service Center
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net position for fiscal year 2017 compared to 2016.

(Table 1)
Net Position – Modified Cash Basis

	Governmental Activities	
	2017	2016
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 1,275,104	\$ 622,707
<i>Total Assets</i>	1,275,104	622,707
Net Position		
Restricted for:		
Bus Driver Training Program	232,746	201,653
Other Purposes	25,850	52,409
Unrestricted	1,016,508	368,645
<i>Total Net Position</i>	\$ 1,275,104	\$ 622,707

Net position of the governmental activities increased \$652,397 which represents a 105 percent increase from fiscal year 2016. This is due to a \$1,173,730 increase in cash caused by an increase in contract services.

A portion of the Service Center's net position, \$258,596, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$1,016,508 may be used to meet the Service Center's ongoing obligations.

Allen County Educational Service Center
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Table 2 shows the changes in net position for fiscal year 2017 as compared to fiscal year 2016.

(Table 2)
Changes in Net Position – Modified Cash Basis

	Governmental Activities	
	2017	2016
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 8,088,644	\$ 6,953,178
Operating Grants and Contributions	369,135	370,381
<i>Total Program Receipts</i>	<u>8,457,779</u>	<u>7,323,559</u>
<i>General Receipts</i>		
Grants and Entitlements not Restricted to		
Specific Programs	501,606	470,750
Investment Earnings	729	428
Miscellaneous	37,812	29,459
<i>Total General Receipts</i>	<u>540,147</u>	<u>500,637</u>
<i>Total Receipts</i>	<u>8,997,926</u>	<u>7,824,196</u>
<i>Program Disbursements</i>		
Instruction:		
Regular	505,908	512,335
Special	3,432,966	3,051,743
Support Services:		
Pupils	2,866,327	2,637,694
Instructional Staff	413,335	408,546
Board of Education	11,597	16,306
Administration	695,399	621,546
Fiscal	178,792	195,491
Business	957	688
Operation and Maintenance of Plant	776	2,628
Pupil Transportation	236,318	187,980
Operation of Non-Instructional Services	3,154	2,742
<i>Total Program Disbursements</i>	<u>8,345,529</u>	<u>7,637,699</u>
<i>Change in Net Position</i>	652,397	186,497
<i>Net Position Beginning of Year</i>	622,707	436,210
<i>Net Position End of Year</i>	<u>\$ 1,275,104</u>	<u>\$ 622,707</u>

Increased charges for services reflect an increase in contract services from enrollment in current programs. Fluctuations among individual program disbursements are also a result of these changes in services provided.

Allen County Educational Service Center
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Governmental Activities

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements.

(Table 3)
Governmental Activities – Modified Cash Basis

	Total Costs of Services		Net Costs of Services	
	2017	2016	2017	2016
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 505,908	\$ 512,335	\$ 333	\$ 26,604
Special	3,432,966	3,051,743	(49,150)	181,969
Support Services:				
Pupils	2,866,327	2,637,694	(42,387)	155,929
Instructional Staff	413,335	408,546	23,250	(27,584)
Board of Education	11,597	16,306	(171)	964
Administration	695,399	621,546	(10,284)	36,743
Fiscal	178,792	195,491	(2,644)	11,556
Business	957	688	(14)	41
Operation and Maintenance of Plant	776	2,628	(11)	339
Pupil Transportation	236,318	187,980	(31,125)	(72,583)
Operation of Non-Instructional Services	3,154	2,742	(47)	162
<i>Total</i>	<u>\$ 8,345,529</u>	<u>\$ 7,637,699</u>	<u>\$ (112,250)</u>	<u>\$ 314,140</u>

During fiscal year 2017, program receipts exceeded total governmental disbursements, the most significant of which is contract services. The Service Center's dependence on contract services and tuition and fees is evident.

The Service Center's Funds

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

The Service Center's governmental funds reported a combined fund balance of \$1,275,104, which is higher than the prior year balance of \$622,707.

The general fund's fund balance increased \$655,871 in fiscal year 2017 due to an increase in contract services provided.

The Bus Driving Training Fund had an increase in fund balance of \$31,093.

Allen County Educational Service Center
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Current Issues

Even though the Allen County Educational Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the State Foundation Program, grants and contracts secured with the local school districts.

The Service Center's largest receipt stream is the contracts secured with the local schools for the services offered. The Service Center is like any other business: trying to do more with less. As staff retire or resign, they are not replaced if at all possible. The employees are paying more for their benefits.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff needs over the next several years.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, OH 45801-3309.

Allen County Educational Service Center
Allen County, Ohio
Statement of Net Position - Modified Cash Basis
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,275,104
<i>Total Assets</i>	<u>1,275,104</u>
Net Position	
Restricted for:	
Bus Driver Training Program	232,746
Other Purposes	25,850
Unrestricted	<u>1,016,508</u>
<i>Total Net Position</i>	<u>\$ 1,275,104</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2017

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Position
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$ 505,908	\$ 403,704	\$ 101,871	\$ (333)
Special	3,432,966	3,399,984	82,132	49,150
Support Services:				
Pupils	2,866,327	2,908,714	0	42,387
Instructional Staff	413,335	315,724	74,361	(23,250)
Board of Education	11,597	11,768	0	171
Administration	695,399	705,683	0	10,284
Fiscal	178,792	181,436	0	2,644
Business	957	971	0	14
Operation and Maintenance of Plant	776	787	0	11
Pupil Transportation	236,318	156,672	110,771	31,125
Operation of Non-Instructional Services	3,154	3,201	0	47
<i>Totals</i>	<u>\$ 8,345,529</u>	<u>\$ 8,088,644</u>	<u>\$ 369,135</u>	<u>112,250</u>
General Receipts				
				501,606
Grants and Entitlements not Restricted to Specific Programs				729
Investment Earnings				37,812
Miscellaneous				<u>540,147</u>
<i>Total General Receipts</i>				<u>540,147</u>
<i>Change in Net Position</i>				652,397
<i>Net Position Beginning of Year</i>				<u>622,707</u>
<i>Net Position End of Year</i>				<u>\$ 1,275,104</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1,024,516	\$ 232,746	\$ 17,842	\$ 1,275,104
<i>Total Assets</i>	<u>\$ 1,024,516</u>	<u>\$ 232,746</u>	<u>\$ 17,842</u>	<u>\$ 1,275,104</u>
Fund Balances				
Restricted	\$ 0	\$ 232,746	\$ 25,850	\$ 258,596
Assigned	1,024,516	0	0	1,024,516
Unassigned	0	0	(8,008)	(8,008)
<i>Total Fund Balances</i>	<u>\$ 1,024,516</u>	<u>\$ 232,746</u>	<u>\$ 17,842</u>	<u>\$ 1,275,104</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Modified Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General Fund	Bus Driver Training Program Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$ 501,606	\$ 104,866	\$ 230,370	\$ 836,842
Investment Income	729	0	0	729
Contract Services	7,600,220	0	0	7,600,220
Extracurricular Activities	2,448	0	0	2,448
Tuition and Fees	326,186	147,945	0	474,131
Gifts and Donations	0	0	33,900	33,900
Charges for Services	11,843	0	0	11,843
Rent	7,372	0	0	7,372
Miscellaneous	30,441	0	0	30,441
<i>Total Receipts</i>	<u>8,480,845</u>	<u>252,811</u>	<u>264,270</u>	<u>8,997,926</u>
Disbursements				
Current:				
Instruction:				
Regular	397,821	0	108,087	505,908
Special	3,350,428	0	82,538	3,432,966
Support Services:				
Pupils	2,866,327	0	0	2,866,327
Instructional Staff	311,123	0	102,212	413,335
Board of Education	11,597	0	0	11,597
Administration	695,399	0	0	695,399
Fiscal	178,792	0	0	178,792
Business	957	0	0	957
Operation and Maintenance of Plant	776	0	0	776
Pupil Transportation	8,600	221,718	6,000	236,318
Operation of Non-Instructional Services	3,154	0	0	3,154
<i>Total Disbursements</i>	<u>7,824,974</u>	<u>221,718</u>	<u>298,837</u>	<u>8,345,529</u>
<i>Net Change in Fund Balances</i>	655,871	31,093	(34,567)	652,397
<i>Fund Balances Beginning of Year</i>	<u>368,645</u>	<u>201,653</u>	<u>52,409</u>	<u>622,707</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,024,516</u>	<u>\$ 232,746</u>	<u>\$ 17,842</u>	<u>\$ 1,275,104</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Fiduciary Net Position - Modified Cash Basis
Fiduciary Fund
June 30, 2017

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 36,906
Cash and Cash Equivalents	7,375,572
Investments	5,227,218
<i>Total Assets</i>	\$ 12,639,696
 Net Position	
Held in Trust for:	
Pool Participants	\$ 12,602,790
Others	36,906
<i>Total Net Position</i>	\$ 12,639,696

See accompanying notes to the basic financial statements.

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Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 1 - DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

The Allen County Educational Service Center (the “Service Center”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected governing board (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student related special education, supervisory, administrative and fiscal activities of the Service Center.

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

The Service Center is associated with one jointly governed organization and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Schools of Ohio Risk Sharing Authority, the Sheakley Workers' Compensation Group Rating Program, and the Council of Allen County Schools Health Benefit Consortium. These organizations are presented in Notes 8 and 9 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the Service Center’s accounting policies.

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. The Service Center recognizes revenue when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources 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.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Position-Modified Cash Basis* and *Statement of Activities-Modified Cash Basis* display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

General Fund - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Bus Driver Training Program Fund - The Bus Driver Training Program Fund accounts for the resources to pay for training services to educate various school district bus drivers.

Other governmental funds of the Service Center account for grants and other resources to which the Service Center is bound to observe imposed constraints imposed by the use of the resources.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. The Service Center's agency funds are established for academic quiz bowl activities, and the regional school improvement team.

C. Budgetary Process

There are no budgetary requirements for educational service centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures to assist them in fiscal accountability.

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Council of Allen County Schools Health Benefit Consortium Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, investments of the cash management pool and investments

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with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which are not purchased from pooled monies are reported as investments.

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 2017, investments were limited to STAR Ohio, STAR Plus, federal agency securities, money market funds and negotiable certificates of deposit.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The Service Center also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2017 were \$729, which included \$213 assigned from other funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

F. Accumulated 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

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reflected as liabilities under the modified cash basis of accounting used by the Service Center.

G. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

H. Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

I. Flow-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2017, the most significant grants include the Preschool, Alternative Education Challenge, Parent Mentor and Title I grants.

J. Interfund Activity

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing 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. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net position and displayed in separate components:

1. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net position restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes. The Service Center did not have any net position restricted by enabling legislation.

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2. Unrestricted net position – All other net position that do not meet the definition of “restricted.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net position are available.

FUND FINANCIAL STATEMENTS

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

1. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
2. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
3. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
4. Assigned - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.
5. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

M. Receipts and Disbursements

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. As described further in Note 4, the Service Center's program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

N. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the Service Center has (to the extent it applies to the modified cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Service Center's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

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O. Pensions

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

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Service 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 Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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.

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

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 or interest by the United States;

40Bonds, notes debentures or any other obligations 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 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;

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4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed 40 percent of the interim monies available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Service Center and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At June 30, 2017, the carrying amount of the Service Center's deposits was \$7,085,959 and the bank balance was \$7,692,545. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$1,715,962 was covered by federal depository insurance, which includes \$1,215,962 held in a STAR Plus account, and \$5,976,583 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments

All investments are reported at cost. As of June 30, 2017, the Service Center's investments were as follows:

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S&P Global Ratings	Investment Type	Cost	Investment Maturities			Percentage of Total
			< 1 year	1-3 years	> 3 years	
AA+	Federal Home Loan Mortgage	\$ 500,000	\$ 0	\$ 500,000	\$ 0	7.33%
N/A	Negotiable Certificates of Deposit	4,727,218	3,227,218	1,250,000	250,000	69.23%
AAAm	Money Markets	609,426	609,426	0	0	8.92%
AAAm	STAR Ohio	992,197	992,197	0	0	14.52%
	Total	<u>\$ 6,828,841</u>	<u>\$ 4,828,841</u>	<u>\$ 1,750,000</u>	<u>\$ 250,000</u>	<u>100.00%</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center’s investment policy addresses interest rate risk by requiring that the Service Center’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days. The negotiable Certificate of Deposits are covered by the FDIC Insurance.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, “Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee.”

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. All investments are held by the investment's counterparty and not in the name of the Service Center.

Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center’s investments are summarized above.

NOTE 4 - PRIMARY RECEIPT SOURCES

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local service centers and paid under contract by the local service centers.

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A. State Foundation Distributions - Amounts Paid by the State

This section has two parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted education. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM) of the local districts within the limits of the Service Center's territory times \$27.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

B. State Foundation Distributions

1. Amounts Paid by the Local Districts

This section has one part. It represents the per pupil amount paid by the districts. Each Service Center's per pupil amount is determined by multiplying the ADM of the Service Center (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contract services.

2. Amounts Paid under Contract by Local School Districts

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$ 3,588,596
Automobile Liability	15,000,000
General Liability	
Per occurrence	15,000,000
Total per year	17,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

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Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year. The Service Center participates in the Schools of Ohio Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self-insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self-insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The Third Party Administrator is Frank Gates Service Company.

B. Workers' Compensation

For fiscal year 2017, the Service Center participated in the Sheakley Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts/service center in the GRP.

Each participant pays its worker's compensation premium to the Cooperative based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." The "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

C. Health Care Benefits

The Service Center participates in the Council of Allen County Schools Health Benefit Consortium (the "Consortium"), a public entity shared risk pool consisting of the school districts within Allen County. The Service Center pays monthly premiums to the Consortium for employee medical and dental benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

In addition to the health benefits provided to employees under the Council of Allen County Schools Health Benefit Consortium disclosed in Note 9, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Gallagher Benefit Services, Dearborn National and American Fidelity, respectively. In fiscal year 2017, the Service Center contributed \$2,322 to the life insurance plan and \$12,342 to the cafeteria 125 flexible plan.

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NOTE 6 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The Service Center's contractually required contribution to SERS was \$169,461 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member,

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and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Service Center's contractually required contribution to STRS was \$623,221 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Service Center's employer allocation percentage of the net pension liability is based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Employer contributions were determined based on the 14 percent employer rate and total member contributions from employer payroll reports for the year ended June 30, 2016:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 13,061,344	\$ 1,962,691	\$ 15,024,035
Proportion of the Net Pension Liability	0.03902052%	0.02681610%	

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited

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service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return

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premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Service Center’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Service Center's proportionate share of the net pension liability	\$ 2,598,481	\$ 1,962,691	\$ 1,430,509

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Service Center's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Service Center's proportionate share of the net pension liability	\$ 17,357,465	\$ 13,061,344	\$ 9,437,313

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2

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percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Service Center's surcharge obligation was \$18,149.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Service Center's contributions for health care for the fiscal year ended June 30, 2015, was \$7,478. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the Service Center did not contribute to health care in the last three fiscal years.

NOTE 8 - JOINTLY GOVERNED ORGANIZATION

Northwest Ohio Area Computer Services Cooperative

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 4277 East Road, Elida, Ohio 45807.

NOTE 9 - INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Sheakley Workers' Compensation Group Rating Plan

The Service Center participates in a group rating plan (GRP) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the Lima Allen County Chamber of Commerce as a group insurance purchasing pool. Sheakley is the Third Party Administrator for Allen County Educational Service Center and the Lima Allen County Chamber of Commerce group.

C. Council of Allen County Schools Health Benefit Consortium

The Service Center participates in the Council of Allen County Schools Health Benefit Consortium (the "Consortium"), a public entity shared risk pool consisting of the Service Centers within Allen County. The Consortium is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school districts superintendent is appointed to a Board of Directors which advises the Trustees, American Fidelity and Gallagher Benefit Services concerning aspects of the administration of the Trust.

NOTE 10 - OPERATING LEASES

The Service Center is obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on January 1, 2016 with monthly payments of \$9,000 for an 18 month period through June 30, 2017. Payments are made from the general fund and Bus Driver Training Program and totaled \$135,542 for fiscal year 2017.

NOTE 11 – CONTINGENCIES

A. Grants

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any

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disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2017, if applicable, cannot be determined at this time.

B. Litigation

The Service Center is not party to any claims or lawsuits that would, in the Service Center’s opinion, have a material effect of the basic financial statements.

C. Service Center Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the Service Center. As a result of the fiscal year 2018 reviews, the Service Center received an additional \$1,392 from ODE. This amount has not been included in the financial statements.

D. Significant Encumbrances

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

Fund	Amount
General Fund	\$ 40,248
Bus Driver Training Program	61,136
Other Governmental	6,980
	\$ 108,364

NOTE 12 – FUND BALANCE

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

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

	<u>General</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Restricted for:				
Bus Driver Training Program	\$ 0	\$ 232,746	\$ 0	\$ 232,746
Science Enhancement for Science Advancement	0	0	24,819	24,819
Other Purposes	0	0	1,031	1,031
Total Restricted	<u>0</u>	<u>232,746</u>	<u>25,850</u>	<u>258,596</u>
Assigned for:				
Instruction	4,678	0	0	4,678
Support Services	35,162	0	0	35,162
Non-instructional Services	408	0	0	408
Subsequent Year Appropriations	984,268	0	0	984,268
Total Assigned	<u>1,024,516</u>	<u>0</u>	<u>0</u>	<u>1,024,516</u>
Unassigned	<u>0</u>	<u>0</u>	<u>(8,008)</u>	<u>(8,008)</u>
Total Fund Balance	<u>\$ 1,024,516</u>	<u>\$ 232,746</u>	<u>\$ 17,842</u>	<u>\$ 1,275,104</u>

NOTE 13 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The Early Childhood Education fund and the Title I Delinquent fund had deficit fund balances of \$1,243 and \$6,765, respectively. The general fund is liable for any deficit and provides transfers when cash is required.

B. Compliance

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2017, the Service Center prepared its financial report on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

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Allen County Educational Service Center
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- General receipts accounted for \$500,637 or 6 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$7,323,559 or 94 percent of total receipts of \$7,824,196.
- In total, program disbursements were \$7,637,699.
- In total, net position increased \$186,497.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center. 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 Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2016, the General Fund and Bus Driver Training Program Fund are the Service Center's most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on the modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. 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.

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Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the Service Center's programs and services, including instruction and support services.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 43. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds include the General Fund and the Bus Driver Training Program Fund.

Governmental Funds - All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the Service Center's Fiduciary Responsibilities

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 49. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

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(Unaudited)

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net position for fiscal year 2016 compared to 2015.

(Table 1)
Net Position – Modified Cash Basis

	Governmental Activities	
	2016	2015
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 622,707	\$ 436,210
<i>Total Assets</i>	<i>622,707</i>	<i>436,210</i>
Net Position		
Restricted for:		
Bus Driver Training Program	201,653	122,576
Other Purposes	52,409	41,455
Unrestricted	368,645	272,179
<i>Total Net Position</i>	<i>\$ 622,707</i>	<i>\$ 436,210</i>

Net position of the governmental activities increased \$186,497 which represents a 43 percent increase from fiscal year 2015. This is primarily due to a \$358,579 increase in receipts caused by an increase in contract services coupled with constant operating expenses due to maintaining the same number of staff. Three employees retired and were rehired saving approximately \$50,000 and timing of commissioners' office invoices.

A portion of the Service Center's net position, \$254,062, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$368,645 may be used to meet the Service Center's ongoing obligations.

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(Unaudited)

Table 2 shows the changes in net position for fiscal year 2016 as compared to fiscal year 2015.

(Table 2)
Changes in Net Position – Modified Cash Basis

	Governmental Activities	
	2016	2015
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 6,953,178	\$ 6,554,777
Operating Grants and Contributions	370,381	344,554
<i>Total Program Receipts</i>	7,323,559	6,899,331
<i>General Receipts</i>		
Grants and Entitlements not Restricted to		
Specific Programs	470,750	480,273
Investment Earnings	428	182
Miscellaneous	29,459	85,831
<i>Total General Receipts</i>	500,637	566,286
<i>Total Receipts</i>	7,824,196	7,465,617
<i>Program Disbursements</i>		
Instruction:		
Regular	512,335	473,811
Special	3,051,743	3,141,730
Support Services:		
Pupils	2,637,694	2,525,027
Instructional Staff	408,546	506,266
Board of Education	16,306	12,001
Administration	621,546	611,369
Fiscal	195,491	195,761
Business	688	826
Operation and Maintenance of Plant	2,628	100
Pupil Transportation	187,980	212,828
Operation of Non-Instructional Services	2,742	1,859
<i>Total Program Disbursements</i>	7,637,699	7,681,578
<i>Change in Net Position</i>	186,497	(215,961)
<i>Net Position Beginning of Year</i>	436,210	652,171
<i>Net Position End of Year</i>	\$ 622,707	\$ 436,210

Increased charges for services reflect increase in contract services from enrollment in current programs.

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(Unaudited)

Governmental Activities

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 entitlements.

(Table 3)
Governmental Activities – Modified Cash Basis

	Total Costs of Services		Net Costs of Services	
	2016	2015	2016	2015
Program Disbursements				
Instruction:				
Regular	\$ 512,335	\$ 473,811	\$ 26,604	\$ 44,404
Special	3,051,743	3,141,730	181,969	135,332
Support Services:				
Pupils	2,637,694	2,525,027	155,929	262,696
Instructional Staff	408,546	506,266	(27,584)	72,826
Board of Education	16,306	12,001	964	12,001
Administration	621,546	611,369	36,743	63,605
Fiscal	195,491	195,761	11,556	195,761
Business	688	826	41	826
Operation and Maintenance of Plant	2,628	100	339	100
Pupil Transportation	187,980	212,828	(72,583)	(7,163)
Operation of Non-Instructional Services	2,742	1,859	162	1,859
Total	\$ 7,637,699	\$ 7,681,578	\$ 314,140	\$ 782,247

Program receipts account for 96 percent of total governmental disbursements, the most significant of which is contract services. The Service Center's dependence on contract services and tuition and fees is evident.

The Service Center's Funds

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

The Service Center's governmental funds reported a combined fund balance of \$622,707, which is higher than the prior year balance of \$436,210.

The general fund's fund balance increased \$96,466 in fiscal year 2016.

The Bus Driving Training Fund had an increase in fund balance of \$79,077. This was partially caused by the Service Center receiving approximately \$40,000 from the Educational Service Center of Medina County to administer the bus driving training program.

There were no significant variances to discuss within other financing sources and uses.

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Current Issues

Even though the Allen County Educational Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the State Foundation Program, grants and contracts secured with the local school districts.

The Service Center's largest receipt stream is the contracts secured with the local schools for the services offered. The Service Center is like any other business: trying to do more with less. As staff retire or resign, they are not replaced if at all possible. The employees are paying more for their benefits.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff needs over the next several years.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, OH 45801-3309.

Allen County Educational Service Center
Allen County, Ohio
Statement of Net Position - Modified Cash Basis
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 622,707</u>
<i>Total Assets</i>	<u>622,707</u>
Net Position	
Restricted for:	
Bus Driver Training Program	201,653
Other Purposes	52,409
Unrestricted	<u>368,645</u>
<i>Total Net Position</i>	<u><u>\$ 622,707</u></u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2016

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Position
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$ 512,335	\$ 423,429	\$ 62,302	\$ (26,604)
Special	3,051,743	2,850,913	18,861	(181,969)
Support Services:				
Pupils	2,637,694	2,481,765	0	(155,929)
Instructional Staff	408,546	293,034	143,096	27,584
Board of Education	16,306	15,342	0	(964)
Administration	621,546	584,803	0	(36,743)
Fiscal	195,491	183,935	0	(11,556)
Business	688	647	0	(41)
Operation and Maintenance of Plant	2,628	2,289	0	(339)
Pupil Transportation	187,980	114,441	146,122	72,583
Operation of Non-Instructional Services	2,742	2,580	0	(162)
<i>Totals</i>	<u>\$ 7,637,699</u>	<u>\$ 6,953,178</u>	<u>\$ 370,381</u>	<u>(314,140)</u>

General Receipts

Grants and Entitlements not Restricted to Specific Programs	470,750
Investment Earnings	428
Miscellaneous	29,459
<i>Total General Receipts</i>	<u>500,637</u>
<i>Change in Net Position</i>	186,497
<i>Net Position Beginning of Year</i>	<u>436,210</u>
<i>Net Position End of Year</i>	<u>\$ 622,707</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 368,645	\$ 201,653	\$ 52,409	\$ 622,707
<i>Total Assets</i>	<u>\$ 368,645</u>	<u>\$ 201,653</u>	<u>\$ 52,409</u>	<u>\$ 622,707</u>
Fund Balances				
Restricted	\$ 0	\$ 201,653	\$ 52,409	\$ 254,062
Assigned	368,645	0	0	368,645
<i>Total Fund Balances</i>	<u>\$ 368,645</u>	<u>\$ 201,653</u>	<u>\$ 52,409</u>	<u>\$ 622,707</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Modified Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	Bus Driver Training Program Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	\$ 470,750	\$ 146,122	\$ 144,758	\$ 761,630
Investment Income	428	0	0	428
Contract Services	6,523,254	0	0	6,523,254
Extracurricular Activities	984	0	0	984
Tuition and Fees	313,519	106,585	0	420,104
Gifts and Donations	0	0	79,500	79,500
Charges for Services	8,836	0	0	8,836
Miscellaneous	29,459	0	0	29,459
<i>Total Receipts</i>	<u>7,347,230</u>	<u>252,707</u>	<u>224,258</u>	<u>7,824,195</u>
Disbursements				
Current:				
Instruction:				
Regular	450,033	0	62,302	512,335
Special	3,030,036	0	21,707	3,051,743
Support Services:				
Pupils	2,637,694	0	0	2,637,694
Instructional Staff	311,445	0	97,100	408,545
Board of Education	16,306	0	0	16,306
Administration	621,546	0	0	621,546
Fiscal	195,491	0	0	195,491
Business	688	0	0	688
Operation and Maintenance of Plant	2,433	0	195	2,628
Pupil Transportation	8,350	173,630	6,000	187,980
Operation of Non-Instructional Services	2,742	0	0	2,742
<i>Total Disbursements</i>	<u>7,276,764</u>	<u>173,630</u>	<u>187,304</u>	<u>7,637,698</u>
Other Financing Sources (Uses)				
Advances In	26,000	0	0	26,000
Advances Out	0	0	(26,000)	(26,000)
<i>Total Other Financing Sources (Uses)</i>	<u>26,000</u>	<u>0</u>	<u>(26,000)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	96,466	79,077	10,954	186,497
<i>Fund Balances Beginning of Year</i>	<u>272,179</u>	<u>122,576</u>	<u>41,455</u>	<u>436,210</u>
<i>Fund Balances End of Year</i>	<u>\$ 368,645</u>	<u>\$ 201,653</u>	<u>\$ 52,409</u>	<u>\$ 622,707</u>

See accompanying notes to the basic financial statements.

Allen County Educational Service Center
Allen County, Ohio
Statement of Fiduciary Net Position - Modified Cash Basis
Fiduciary Fund
June 30, 2016

	<i>Agency</i>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 33,830
Cash and Cash Equivalents	6,919,180
Investments	5,977,656
<i>Total Assets</i>	\$ 12,930,666
 Net Position	
Held in Trust for:	
Pool Participants	\$ 12,896,836
Others	33,830
<i>Total Net Position</i>	\$ 12,930,666

See accompanying notes to the basic financial statements.

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Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 - DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

The Allen County Educational Service Center (the “Service Center”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected governing board (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student related special education, supervisory, administrative and fiscal activities of the Service Center.

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

The Service Center is associated with one jointly governed organization and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Schools of Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Council of Allen County Schools Health Benefit Consortium. These organizations are presented in Notes 8 and 9 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the Service Center’s accounting policies.

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources 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.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Position-Modified Cash Basis* and *Statement of Activities-Modified Cash Basis* display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

General Fund - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Bus Driver Training Program Fund - The Bus Driver Training Program Fund accounts for the resources to pay for training services to educate various school district bus drivers.

Other governmental funds of the Service Center account for grants and other resources to which the Service Center is bound to observe imposed constraints imposed by the use of the resources.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. The Service Center's agency funds are established for academic quiz bowl activities and the regional school improvement team.

C. Budgetary Process

There are no budgetary requirements for educational service centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures to assist them in fiscal accountability.

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Council of Allen County Schools' Health Benefit Consortium Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, investments of the cash management pool and investments

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which are not purchased from pooled monies are reported as investments.

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 2016, investments were limited to STAR Ohio, STAR Plus, federal agency securities, money market funds and negotiable certificates of deposits.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Certain External Investment Pools and Pool Participants. The Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The Service Center also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2016 were \$428, which included \$184 assigned from other funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

F. Accumulated Leave

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

G. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

H. Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

I. Flow-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2016, this includes the Preschool Grant.

J. Interfund Activity

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing 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. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net position and displayed in separate components:

1. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net position restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes. The Service Center did not have any net position restricted by enabling legislation.
2. Unrestricted net position – All other net position that do not meet the definition of “restricted.”

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The Service Center's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net position are available.

FUND FINANCIAL STATEMENTS

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

1. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.
2. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
3. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
4. Assigned - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.
5. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

M. Receipts and Disbursements

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. As described further in Note 4, the Service Center's program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

N. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the Service Center has (to the extent it applies to the modified cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Service Center. GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. These changes were incorporated in the Service Center's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

O. Pensions

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

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Service 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 Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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.

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

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 or interest by the United States;
2. Bonds, notes debentures or any other obligations 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 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;

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed 40 percent of the interim monies available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Service Center and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. The Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At June 30, 2016, the carrying amount of the Service Center's deposits was \$6,110,260 and the bank balance was \$6,270,857. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$4,702,454 was covered by federal depository insurance, which includes \$4,202,454 held in a STAR Plus account, and \$1,568,403 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Investments

All investments are reported at cost. As of June 30, 2016, the Service Center's investments were as follows:

	Cost	Investment Maturities			Percentage of Total
		< 1 year	1-3 years	> 3 years	
Negotiable Certificates of Deposit	\$ 5,227,957	\$ 2,000,000	\$ 2,977,957	\$ 250,000	70.2%
Federal National Mortgage Association	149,691	149,691		0	2.0%
Federal Home Loan Bank/Mortgage	600,008	100,008		500,000	8.1%
Money Markets	48,705	48,705		0	0.7%
STAR Ohio	1,416,752	1,416,752		0	19.0%
Total	<u>\$ 7,443,113</u>	<u>\$ 3,715,156</u>	<u>\$ 2,977,957</u>	<u>\$ 750,000</u>	<u>100.0%</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days. The negotiable Certificates of Deposits are covered by FDIC Insurance.

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The money market funds carry a rating of AAAM and federal agency securities carry a rating of AA+ by S&P Global Ratings. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carried a rating of AAAM by S&P Global Ratings. All investments are held by the investment's counterparty and not in the name of the Service Center.

Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center's investments are summarized above.

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NOTE 4 - PRIMARY RECEIPT SOURCES

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contract services. The second source is State foundation distributions. The Service Center settlement report for foundation payments has three sections: paid by the State, paid by the local service centers and paid under contract by the local service centers.

A. State Foundation Distributions - Amounts Paid by the State

This section has two parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted education. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM) of the local districts within the limits of the Service Center's territory times \$27.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

B. State Foundation Distributions

1. Amounts Paid by the Local Districts

This section has one part. It represents the per pupil amount paid by the districts. Each Service Center's per pupil amount is determined by multiplying the ADM of the Service Center (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contract services.

2. Amounts Paid under Contract by Local School Districts

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent contract services.

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

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Property Insurance	\$ 3,134,962
Automobile Liability	15,000,000
General Liability	
Per occurrence	15,000,000
Total per year	17,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year. The Service Center participates in the Schools of Ohio Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self-insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self-insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The Third Party Administrator is Frank Gates Service Company.

B. Worker’s Compensation

For fiscal year 2016, the Service Center participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

Each participant pays its worker’s compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund.” This “equity pooling” arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP’s selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

The Service Center participates in the Council of Allen County Schools Health Benefit Consortium (the “Consortium”), a public entity shared risk pool consisting of the school districts within Allen County. The Service Center pays monthly premiums to the Consortium for employee medical and dental benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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In addition to the health benefits provided to employees under the Council of Allen County Schools Health Benefit Consortium disclosed in Note 9, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Gallagher Benefit Services, Dearborn National and American Fidelity, respectively. In fiscal year 2016, the Service Center contributed \$1,919 to the life insurance plan and \$9,510 to the cafeteria 125 flexible plan.

NOTE 6 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The Service Center’s contractually required contribution to SERS was \$133,991 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth

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anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Service Center's contractually required contribution to STRS was \$581,280 for fiscal year 2016.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service Center's proportion of the net pension liability was based on the Service Center's share of contributions to

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the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 10,920,671	\$ 1,620,651	\$ 12,541,322
Proportion of the Net Pension Liability	0.03951457%	0.02840210%	

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A

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forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Service Center's proportionate share of the net pension liability	\$ 2,247,261	\$ 1,620,651	\$ 1,092,994

Changes between Measurement Date and Report Date

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

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Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Service Center's proportionate share of the net pension liability	\$ 15,169,636	\$ 10,920,671	\$ 7,327,538

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$13,382, \$18,689 and \$12,398, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The Service Center’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$40,246, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 8 - JOINTLY GOVERNED ORGANIZATION

Northwest Ohio Area Computer Services Cooperative

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

NOTE 9 - INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA’s business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool’s administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Ohio School Boards Association Workers' Compensation Group Rating Program

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Plan.

C. Council of Allen County Schools Health Benefit Consortium

The Service Center participates in the Council of Allen County Schools Health Benefit Consortium (the "Consortium"), a public entity shared risk pool consisting of the Service Centers within Allen County. The Consortium is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school districts superintendent is appointed to a Board of Directors which advises the Trustees, American Fidelity and Gallagher Benefit Services concerning aspects of the administration of the Trust.

NOTE 10 - OPERATING LEASES

The Service Center is obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2010 with monthly payments of \$9,771 and was renewed in January 2016 for an 18 month period through June 30, 2017 with monthly payments of \$9,000. Payments are made from the general fund and Bus Driver Training Program and totaled \$86,167 for fiscal year 2016.

NOTE 11 – CONTINGENCIES

A. Grants

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2016, if applicable, cannot be determined at this time.

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B. Litigation

The Service Center is not party to any claims or lawsuits that would, in the Service Center's opinion, have a material effect of the basic financial statements.

C. Service Center Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2015 and June 30, 2016 Foundation funding for the Service Center. As a result of the fiscal year 2017, reviews, the District received an additional \$9,463 from ODE. This amount has not been included in the financial statements.

D. Significant Encumbrances

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

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 124,999
Bus Driver Training Program	29,903
Other Governmental	<u>14,270</u>
	<u>\$ 169,172</u>

NOTE 12 – FUND BALANCE

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

Allen County Educational Service Center
Allen County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

	<u>General</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Restricted for:				
Bus Driver Training Program	\$ 0	\$ 201,653	\$ 0	\$ 201,653
Science Enhancement for Science Advancement	0	0	52,409	52,409
Total Restricted	<u>0</u>	<u>201,653</u>	<u>52,409</u>	<u>254,062</u>
Assigned for:				
Instruction	30,421	0	0	30,421
Support Services	94,578	0	0	94,578
Subsequent Year Appropriations	243,646	0	0	243,646
Total Assigned	<u>368,645</u>	<u>0</u>	<u>0</u>	<u>368,645</u>
Total Fund Balance	<u>\$ 368,645</u>	<u>\$ 201,653</u>	<u>\$ 52,409</u>	<u>\$ 622,707</u>

NOTE 13 – ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2016, the Service Center prepared its financial report on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

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Dave Yost • Auditor of State

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

Allen County Educational Service Center
Allen County
1920 Slabtown Road
Lima, Ohio 45801

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 modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio (the Service Center) as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated September 24, 2018, wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Service 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 Service 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 Service 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Service 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 2017-002.

Service Center's Response to Findings

The Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Service Center's responses to the auditing procedures applied in the audit of the financial statements 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 Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

September 24, 2018

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2017 AND 2016

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

FINDING NUMBER 2017-001

Material Weakness – Accuracy of Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Governmental Accounting Standards Board (GASB) Statement 9 paragraph 9 (GASB Codification 2450.106) states: "...cash equivalents are defined as short-term, highly liquid investments that are both a. Readily convertible to known amounts of cash; and b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates. General, only investments with original maturities of three months or less meet this definition." GASB 9 paragraph 10 states: "Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools...."

The Service Center is the fiscal agent for the Council of Allen County Health Benefits Consortium (the Consortium). Deposits and investments of the Consortium, in the amount of \$12,602,790 and \$12,896,836 at June 30, 2017 and June 30, 2016, respectively, were maintained in deposit and investment accounts separate from those of the Service Center but were originally classified as equity in pooled cash and cash equivalents on the Statement of Fiduciary Net Position.

Negotiable certificates of deposits in the amount of \$4,727,218 and \$5,227,957, at June 30, 2017 and 2016, respectively, and U.S. Agency/Treasury Securities in the amount of \$500,000 and \$749,699 at June 30, 2017 and 2016, respectively, with original maturity dates of greater than three months, should have been classified as investments.

As a result, the remaining deposit amounts of \$7,375,572 and \$6,919,180 at June 30, 2017 and 2016, respectively, should have been classified as cash and cash equivalents since they are not pooled with the Service Center's deposits.

Classification errors mislead the users understanding of the liquidity of deposits and investments and the financial statements.

The accompanying financial statements have been adjusted to correct these errors.

The Service Center should implement procedures to verify that the annual financial report is reviewed prior to submission to the Auditor of State to ensure the completeness and accuracy of the financial statements.

OFFICIALS' RESPONSE:

The compiler and I have already discussed the finding for Accuracy of Financial Reporting and will avoid this error on the 2018-2019 financial statements. No funds are missing and there is no fraud. The total of invested funds was reported as pooled cash and cash equivalents. Any of the investments longer than three months should have been reported as investments. It was a classification error.

FINDING NUMBER 2017-002

Noncompliance Citation

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

Ohio Admin. Code § 117-2-03(B) requires all educational service centers to file annual financial reports which are prepared using generally accepted accounting principles. The Service Center prepared its financial statements in accordance with the modified cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the Service Center should prepare its financial statements according to generally accepted accounting principles.

OFFICIALS' RESPONSE:

The Allen County Educational Service Center cannot afford to use the generally accepted accounting principles method for filing the financial statement. Since this organization does not pass tax levies, have debt, own school buses or buildings, the financial statements are prepared in accordance with the cash accounting bases.



Mr. Joel Hatfield,
Interim Superintendent
Karla Wireman,
Treasurer

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PROVIDING SERVICES
TO:
Allen East Local
Bath Local
Bluffton Exempted
Village
Delphos City
Elida Local
Lima City
Perry Local
Shawnee Local
Spencerville Local

SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2017 and 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Material Weakness - Accuracy of Financial Reporting	Not Corrected - Repeated as Finding 2017-001	
2015-002	Ohio Rev. Code Sec. 117.38 and Ohio Admin. Code Sec.117-02-03(B) – Failed to file financial statements prepared using generally accepted accounting principles. Reported at least as far back as fiscal year 1997	Not Corrected - Repeated as Finding 2017-002	The Service Center acknowledges this condition but will continue to report on the cash basis in order to save Service Center money.

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ALLEN COUNTY EDUCATIONAL SERVICE CENTER

ALLEN 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
OCTOBER 16, 2018