



Dave Yost • Auditor of State

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY
JUNE 30, 2017 AND 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Madison-Champaign Educational Service Center
Champaign County
2200 South U.S. Highway 68
Urbana, Ohio 43078

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Madison-Champaign Educational Service Center, Champaign County, Ohio (the 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 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 cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express no 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 cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Madison-Champaign Educational Service Center, Champaign County, Ohio, as of June 30, 2017 and 2016, and the respective changes in 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 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 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

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole. The Schedules of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budget Basis – General Fund are not a required part of the financial statements.

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

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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2018 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

July 30, 2018

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The management's discussion and analysis of the Madison-Champaign Educational Service Center (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2017. The Center has prepared their financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The total cash-basis net position of the Center was \$1,469,711.
- General receipts accounted for \$677,443 or 5.18% of total governmental activities receipts. Program specific receipts accounted for \$12,397,567 or 94.82% of total governmental activities receipts.
- The Center had \$13,295,517 in disbursements related to governmental activities; \$12,397,567 of these disbursements were offset by program specific charges for services and grants or contributions. General receipts of \$677,443 were not adequate to provide for these programs.
- The Center's major fund is the general fund. The general fund, the Center's largest fund, had total cash receipts and other financing sources of \$12,470,656 in 2017. The cash disbursements and other financing uses of the general fund totaled \$12,730,713. At June 30, 2017, the general fund's cash balance was \$1,395,211.

Using these Basic Financial Statements

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

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the Center as a whole, presenting an aggregate view of the Center's cash-basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The general fund is the Center's most significant fund.

Reporting the Center as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did the Center perform financially during 2017?" These statements only present the Center's net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This financial reporting framework takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

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

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources, liabilities and deferred inflows of resources, and the effects of these items on revenues and expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant and food service operations.

The Center's statement of net position - cash basis and statement of activities - cash basis can be found on pages 11-12 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

An analysis of the Center's major governmental funds begins on page 9. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Center's most significant funds. The Center's major governmental fund is the general fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at the year-end available for spending in future periods. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be readily spent to finance various Center programs. The Center's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds, whose activity or balances are not large enough to warrant separate reporting, is aggregated and presented in a single column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 15-36 of this report.

Supplementary Information

The Center has presented a budgetary comparison schedule for the general fund as supplementary information on pages 37-38 of this report.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The Center as a Whole

The table below provides a summary of the Center's net position at June 30, 2017 and June 30, 2016.

	Net Position (Cash Basis)	
	Governmental Activities	Governmental Activities
	2017	2016
	<u>2017</u>	<u>2016</u>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 1,469,711	\$ 1,440,218
<u>Restricted assets:</u>		
Equity in pooled cash and cash equivalents	-	250,000
Total assets	<u>1,469,711</u>	<u>1,690,218</u>
<u>Net Cash Position:</u>		
Restricted	74,500	284,950
Unrestricted	<u>1,395,211</u>	<u>1,405,268</u>
Total net cash position	<u>\$ 1,469,711</u>	<u>\$ 1,690,218</u>

Over time, net cash position can serve as a useful indicator of an entity's financial position. At June 30, 2017, total net cash position of the Center was \$1,469,711. A portion of the Center's net position, \$74,500, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$1,395,211 may be used to meet the Center's ongoing obligations to the students and creditors.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The table below shows the net cash position for the Center at June 30, 2017 and June 30, 2016.

	Change in Net Cash Position	
	Governmental Activities 2017	Governmental Activities 2016
<u>Receipts:</u>		
Program revenues:		
Charges for services and sales	\$ 11,693,119	\$ 11,176,226
Operating grants and contributions	704,448	537,100
General revenues:		
Grants and entitlements	486,080	508,264
Investment earnings	763	727
Lease purchase proceeds	-	250,000
Miscellaneous	190,600	134,470
Total receipts	<u>13,075,010</u>	<u>12,606,787</u>
<u>Disbursements:</u>		
Instruction:		
Regular	514,698	443,977
Special	4,964,277	4,783,164
Support services:		
Pupil	4,505,217	4,251,420
Instructional staff	327,432	490,328
Board of education	17,204	23,900
Administration	1,427,072	1,276,713
Fiscal	653,562	403,722
Operations and maintenance	413,005	615,419
Pupil transportation	147,775	136,196
Central	152,161	157,106
Operation of non-instructional services:		
Food service operations	82,718	90,865
Other non-instructional services	6,100	100
Debt service:		
Principal retirement	68,211	4,223
Interest and fiscal charges	16,085	817
Total disbursements	<u>13,295,517</u>	<u>12,677,950</u>
Change in net cash position	(220,507)	(71,163)
Net cash position at beginning of year	<u>1,690,218</u>	<u>1,761,381</u>
Net cash position at end of year	<u>\$ 1,469,711</u>	<u>\$ 1,690,218</u>

Governmental Activities

Governmental net cash position was \$1,469,711 at June 30, 2017; total governmental disbursements of \$13,295,517 were offset by program receipts of \$12,397,567 and general receipts of \$677,443. Program receipts supported 93.25% of the total governmental disbursements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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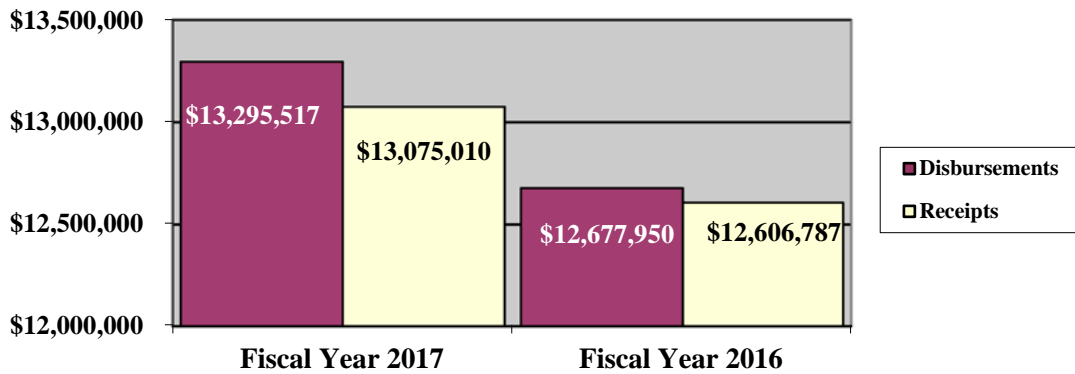
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 89.44% of total governmental cash receipts.

The largest disbursement of the Center is for special instructional programs. Special instructional disbursements totaled \$4,964,277 or 37.34% of total governmental disbursements for fiscal year 2017.

The graph below presents the Center's governmental activities receipts and disbursements for fiscal years 2017 and 2016.

Governmental Activities - Total Receipts vs. Total Disbursements



The statement of activities shows the cost of program services and the charges for services and grants off setting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by miscellaneous receipts, investment earnings and unrestricted state grants and entitlements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

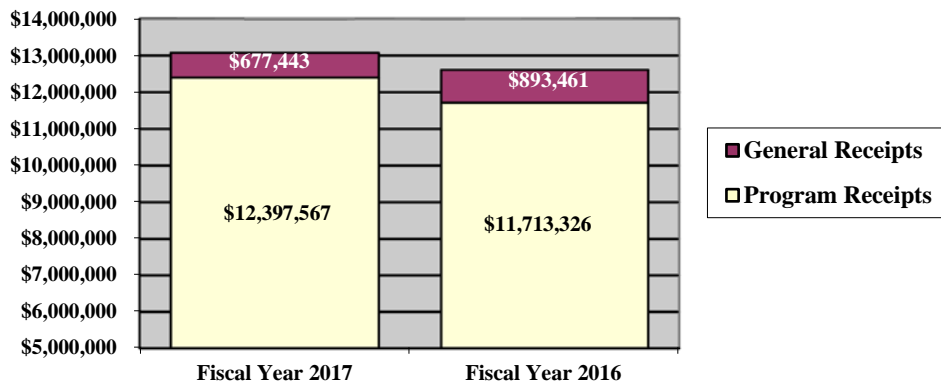
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Disbursements:				
Instruction:				
Regular	\$ 514,698	\$ (26,845)	\$ 443,977	\$ 16,338
Special	4,964,277	(129,992)	4,783,164	(97,418)
Support services:				
Pupil	4,505,217	(77,780)	4,251,420	(10,289)
Instructional staff	327,432	(55,025)	490,328	(38,937)
Board of education	17,204	17,204	23,900	23,900
Administration	1,427,072	(25,030)	1,276,713	(39,789)
Fiscal	653,562	581,232	403,722	346,227
Operations and maintenance	413,005	413,005	615,419	615,419
Pupil transportation	147,775	(20,220)	136,196	(16,644)
Central	152,161	152,161	157,106	157,106
Operation of non-instructional services:				
Food service operations	82,718	(14,825)	90,865	3,571
Other non instructional services	6,100	(231)	100	100
Debt service:				
Principal retirement	68,211	68,211	4,223	4,223
Interest and fiscal charges	16,085	16,085	817	817
Total	<u>\$ 13,295,517</u>	<u>\$ 897,950</u>	<u>\$ 12,677,950</u>	<u>\$ 964,624</u>

The graph below presents the Center's governmental activities receipts for fiscal years 2017 and 2016.

Governmental Activities - General and Program Receipts



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The Center's Funds

At June 30, 2017, the Center's governmental funds reported a combined cash fund balance of \$1,469,711, which is \$220,507 less than last year's total of \$1,690,218. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2017 and June 30, 2016, for all major and nonmajor governmental funds.

	<u>Fund Cash Balance</u> <u>June 30, 2017</u>	<u>Fund Cash Balance</u> <u>June 30, 2016</u>	<u>Increase</u> <u>(Decrease)</u>
Major fund:			
General	\$ 1,395,211	\$ 1,655,268	\$ (260,057)
Other governmental funds	<u>74,500</u>	<u>34,950</u>	<u>39,550</u>
Total	<u>\$ 1,469,711</u>	<u>\$ 1,690,218</u>	<u>\$ (220,507)</u>

General Fund

The general fund, the Center's largest fund, had total receipts and other financing sources of \$12,470,656 in 2017. The disbursements and other financing uses of the general fund, totaled \$12,730,713 in 2017. The general fund's balance was \$1,395,211 at fiscal year-end.

	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Cash receipts</u>				
Tuition	\$ 11,504,099	\$ 11,027,517	\$ 476,582	4.32 %
Other revenues	265,078	197,851	67,227	33.98 %
Intergovernmental	<u>486,080</u>	<u>508,264</u>	<u>(22,184)</u>	<u>(4.36) %</u>
Total	<u>\$ 12,255,257</u>	<u>\$ 11,733,632</u>	<u>\$ 521,625</u>	<u>4.45 %</u>
<u>Cash disbursements</u>				
Instruction	\$ 5,187,238	\$ 4,947,699	\$ 239,539	4.84 %
Support services	7,217,316	7,052,879	164,437	2.33 %
Other non-instructional services	100	100	-	- %
Debt service	<u>84,296</u>	<u>5,040</u>	<u>79,256</u>	<u>1,573 %</u>
Total	<u>\$ 12,488,950</u>	<u>\$ 12,005,718</u>	<u>\$ 483,232</u>	<u>4.03 %</u>

The Center provided more services to districts during fiscal year 2017, which resulted in an overall increase in general fund tuition receipts and disbursements.

Capital Assets and Debt Administration

Capital Assets

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

Debt Administration

At June 30, 2017, the Center had \$302,677 in long-term obligations outstanding. Of this amount, \$99,548 represents a capital lease obligation for copiers and \$203,129 represents a lease-purchase agreement obligation for building improvements. \$67,468 is due within one year.

See Note 13 for additional information on the Center's long-term obligations.

Current Issues

The Center, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Madison and Champaign counties, as well as State Foundation revenue and grants. The need for additional services from school districts will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2018. However, the future financial stability of the Center is not without concerns.

In fiscal year 2012, every educational service center (ESC) in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State. Near the end of fiscal year 2015, the state legislature once again reduced the per student funding for ESCs by 12% for fiscal year 2016, but then increased funding by 9% for fiscal year 2017. Additional reductions in the State's budget will impact the Center and the districts it serves.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 2200 S. U.S. Highway 68, Urbana, Ohio 43078.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,469,711
Total assets.	1,469,711
 Net cash position:	
Restricted for:	
State funded programs.	36,594
Federally funded programs	6,294
Student activities	1,430
Other purposes	30,182
Unrestricted	1,395,211
Total net cash position.	\$ 1,469,711

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Cash</u>	<u>Program Receipts</u>		<u>Net (Disbursements)</u>
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Receipts and Change</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>in Net Cash Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 514,698	\$ 400,115	\$ 141,428	\$ 26,845
Special	4,964,277	4,920,046	174,223	129,992
Support services:				
Pupil	4,505,217	4,428,480	154,517	77,780
Instructional staff	327,432	373,085	9,372	55,025
Board of education	17,204	-	-	(17,204)
Administration	1,427,072	1,448,502	3,600	25,030
Fiscal	653,562	9,584	62,746	(581,232)
Operations and maintenance	413,005	-	-	(413,005)
Pupil transportation	147,775	67,047	100,948	20,220
Central	152,161	-	-	(152,161)
Operation of non-instructional services:				
Food service operations	82,718	46,260	51,283	14,825
Other non-instructional services	6,100	-	6,331	231
Debt service:				
Principal retirement	68,211	-	-	(68,211)
Interest and fiscal charges	16,085	-	-	(16,085)
Total governmental activities	<u>\$ 13,295,517</u>	<u>\$ 11,693,119</u>	<u>\$ 704,448</u>	<u>(897,950)</u>
 General receipts:				
Grants and entitlements not restricted				
to specific programs				486,080
Investment earnings				763
Miscellaneous				190,600
Total general receipts				<u>677,443</u>
Change in net cash position				(220,507)
Net cash position at beginning of year				<u>1,690,218</u>
Net cash position at end of year				<u><u>\$ 1,469,711</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,395,211	\$ 74,500	\$ 1,469,711
Total assets	\$ 1,395,211	\$ 74,500	\$ 1,469,711
 Fund cash balances:			
Restricted:			
Adult education	\$ -	\$ 5,405	\$ 5,405
Food service operations	-	30,182	30,182
Special education	-	7	7
Other purposes.	-	37,476	37,476
Extracurricular	-	1,430	1,430
Assigned:			
Student instruction	72,006	-	72,006
Student and staff support.	23,380	-	23,380
Subsequent year's appropriations	103,016	-	103,016
Uniform school supplies	1,322	-	1,322
Latchkey program	4,783	-	4,783
Unassigned	1,190,704	-	1,190,704
Total fund cash balances.	\$ 1,395,211	\$ 74,500	\$ 1,469,711

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Receipts:			
From local sources:			
Tuition	\$ 11,504,099	\$ -	\$ 11,504,099
Earnings on investments	763	-	763
Charges for services	-	46,260	46,260
Classroom materials and fees	665	-	665
Contributions and donations	3,564	1,066	4,630
Contract services.	20,850	69,045	89,895
Other local revenues	239,236	-	239,236
Intergovernmental - state	486,080	344,162	830,242
Intergovernmental - federal	-	359,220	359,220
Total receipts.	12,255,257	819,753	13,075,010
Disbursements:			
Current:			
Instruction:			
Regular.	389,901	124,797	514,698
Special	4,797,337	166,940	4,964,277
Support services:			
Pupil	4,333,955	171,262	4,505,217
Instructional staff	318,550	8,882	327,432
Board of education	17,204	-	17,204
Administration	1,386,610	40,462	1,427,072
Fiscal	593,117	60,445	653,562
Operations and maintenance	413,005	-	413,005
Pupil transportation	2,714	145,061	147,775
Central	152,161	-	152,161
Operation of non-instructional services:			
Food service operations.	-	82,718	82,718
Other non-instructional services.	100	6,000	6,100
Debt service:			
Principal retirement.	68,211	-	68,211
Interest and fiscal charges	16,085	-	16,085
Total disbursements	12,488,950	806,567	13,295,517
Excess (deficiency) of receipts over (under) disbursements.	(233,693)	13,186	(220,507)
Other financing sources (uses):			
Advances in	215,399	241,763	457,162
Advances (out).	(241,763)	(215,399)	(457,162)
Total other financing sources (uses)	(26,364)	26,364	-
Net change in fund cash balances	(260,057)	39,550	(220,507)
Fund cash balances at beginning of year . . .	1,655,268	34,950	1,690,218
Fund cash balances at end of year.	\$ 1,395,211	\$ 74,500	\$ 1,469,711

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is an Educational Service Center as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative and other services to the Graham, Jefferson, Jonathan Alder, Madison-Plains, West Liberty-Salem, Triad Local School Districts, London and Urbana City School Districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 139 non-certified and 158 certified employees.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. This organization is governed by a board of directors consisting of 11 members: two Superintendents from each county that is represented, one treasurer representative, a student services representative, one city school representative and non-voting independent district representative. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

PUBLIC ENTITY PURCHASING POOLS

Cincinnati USA Regional Chamber Retrospective Group Rating Program

The Center participates in the Cincinnati USA Chamber Retrospective Group Rating Program, an insurance purchasing pool. Each year, the Center pays an enrollment fee to Sheakley to cover the costs of administering the program.

Stark County Schools Council of Governments

The Stark County Schools Council of Governments (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care and dental benefits. The Council is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve on the Board of Directors. The Assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract. Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 38th Street N.W., Canton, Ohio 44709-2300.

B. Basis of Accounting

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has no fiduciary funds.

D. Basis of Presentation

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

E. Budgetary Process

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

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center’s records. Each fund’s interest in the pool is presented as “equity in pooled cash and cash equivalents” on the cash basis basic financial statements.

During fiscal year 2017, the Center invested in STAR Ohio. 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 Center measures its 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Interest receipts credited to the general fund during fiscal year 2017 amounted to \$763, which includes \$26 of interest assigned from other funds.

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

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Long-Term Obligations

Capital lease and lease-purchase obligations are not recognized as a liability in the financial statements under the cash basis of accounting.

K. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Center had no restricted assets as of June 30, 2017.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Inventory and Prepaid Items

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

M. Interfund Receivables/Payables

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

N. Interfund Transactions

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

O. Fund Cash Balance

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

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

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

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Net Cash Position

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

Q. 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 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the Center has implemented 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 governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments 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 Center.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Center.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations 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 Center.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Center.

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash on Hand

At fiscal year end, the Center had \$400 in undeposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all Center deposits was \$1,461,325. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$1,026,664 of the Center's bank balance of \$1,526,664 was exposed to custodial risk as discussed below, while \$500,000 was covered by FDIC.

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2017, the Center had the following investments and maturities:

<u>Investment/measurement type</u>	Measurement <u>Value</u>	<u>Investment Maturities</u> 6 months or <u>less</u>
Amortized cost:		
STAR Ohio	\$ 7,986	\$ 7,986

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center has no investment policy dealing with investments credit risk beyond the requirements in State statutes.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer.

The following table includes the percentage of each investment type held by the Center at June 30, 2017:

<u>Investment/measurement type</u>	Measurement <u>Value</u>	<u>% of total</u>
Amortized cost:		
STAR Ohio	\$ 7,986	100.00

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

The following is a reconciliation of cash and investments reported in the note above to cash as reported on the statement of net position – cash basis as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,461,325
Investments	7,986
Cash on hand	400
Total	<u>\$ 1,469,711</u>
<u>Cash and investments per statement of net position - cash basis</u>	
Governmental activities	<u>\$ 1,469,711</u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 5 - RISK MANAGEMENT

A. Risk Pool Membership

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Center contracted for the following insurance coverages:

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

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

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

B. Employee Medical Benefits

For fiscal year 2017, the Center has contracted with the Stark County Schools Council of Governments (a shared risk pool) (Note 2.A) to provide health insurance, prescription drug benefits, dental insurance, vision insurance, and life insurance. Rates are set through an annual calculation process. The Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating entities. The Center's Governing Board pays a percentage of the premiums. Insurance premiums will vary with each employee depending on marital and family status.

C. Workers' Compensation

For fiscal year 2017, the Center participated in the Cincinnati USA Chamber of Commerce retrospective group rating program (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience, and a common premium rate is applied to all entities 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. Participation in the GRP is limited to entities that can meet the GRP's selection criteria. The firm of Sheakley UniComp provides administrative, cost control, and actuarial services to the GRP.

NOTE 6 - 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

The net pension liability represents the 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.

The Ohio Revised Code limits the Center’s obligation for this liability to annually required payments. The Center cannot control benefit terms or the manner in which pensions are financed; however, the 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 - The Center’s 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 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.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

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 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. None of the employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$409,878 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
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(Continued)

NOTE 6 - PENSION PLANS - (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, 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 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. For fiscal year 2017, plan members were required to contribute 14 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The 2017 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS Ohio was \$773,971 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS Ohio	Total
Proportion of the net pension liability prior measurement date	0.06923790%	0.04792798%	
Proportion of the net pension liability current measurement date	<u>0.07604630%</u>	<u>0.05153895%</u>	
Change in proportionate share	<u>0.00680840%</u>	<u>0.00361097%</u>	
Proportionate share of the net pension liability	\$ 5,565,887	\$ 17,251,640	\$ 22,817,527

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

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, 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 percent
Investment rate of return	7.50 percent net of investments 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.

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(Continued)

NOTE 6 - PENSION PLANS - (Continued)

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 using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

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 earning 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.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

Sensitivity of the 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 7.50 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%)
Center's proportionate share of the net pension liability	\$ 7,368,888	\$ 5,565,887	\$ 4,056,701

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

STRS Ohio's 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:

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

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(Continued)

NOTE 6 - PENSION PLANS - (Continued)

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% 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.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the 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 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%)
Center's proportionate share of the net pension liability	\$ 22,926,028	\$ 17,251,640	\$ 12,464,960

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. 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 overall decrease to the Center's net pension liability is expected to be significant.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

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, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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 Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$38,693, \$35,745, and \$17,092, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Center did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 8 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 9 - OTHER COMMITMENTS

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

<u>Fund Type</u>	<u>Fiscal Year-End Encumbrances</u>
General fund	\$ 92,607
Other governmental	<u>25,835</u>
Total	<u>\$ 118,442</u>

NOTE 10 - INTERFUND TRANSACTIONS

Interfund transactions for the fiscal year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Advances from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 241,763
 <u>Advances from nonmajor governmental funds to:</u>	
General fund	<u>215,399</u>
 Total	 <u>\$ 457,162</u>

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 11 - STATE FUNDING

The Center's funding comes from two sources; State and local funding.

The State per-pupil portion of the budget is approximately \$27.00 per pupil.

The local part of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the local school districts to which the Center provides services from payments made under the State's foundation program.

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

In fiscal year 2016, the Center entered into capital leases for copiers. The terms of the lease agreement provide an option to purchase the copiers. Capital lease payments have been reclassified and are reflected as debt service disbursements in the financial statements for the governmental funds. These disbursements are reported as function disbursements on the budgetary schedule.

Principal payments in fiscal year 2017 totaled \$21,340 paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2017:

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2018	\$ 30,240
2019	30,240
2020	30,240
2021	<u>25,200</u>
Total minimum lease payments	115,920
Less amount representing interest	<u>(16,372)</u>
Total	<u>\$ 99,548</u>

NOTE 13 - LONG-TERM OBLIGATIONS

The table that follows summarizes the changes in the Center's long-term obligations during fiscal year 2017.

	<u>Balance 6/30/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2017</u>	<u>Due Within One Year</u>
Governmental activities:					
Lease-purchase agreement	\$ 250,000	\$ -	\$ (46,871)	\$ 203,129	\$ 44,357
Capital lease obligation	<u>120,888</u>	<u>-</u>	<u>(21,340)</u>	<u>99,548</u>	<u>23,111</u>
Total governmental activities	<u>\$ 370,888</u>	<u>\$ -</u>	<u>\$ (68,211)</u>	<u>\$ 302,677</u>	<u>\$ 67,468</u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Lease purchase agreement - On May 20, 2016, the Center entered into a lease purchase agreement in order to provide funds to rehabilitate the building at 2200 S. U.S. Highway 68, Urbana, Ohio 43078. The lease purchase agreement bears an interest rate of 3.03% and requires 60 monthly payments beginning August 1, 2016. The Center will repay this obligation from the general fund. Principal payments in fiscal year 2017 totaled \$46,871, which included the first payment due in fiscal year 2018 in the amount of \$3,970.

Fiscal Year Ended	Lease purchase agreement		
	Principal	Interest	Total
2018	\$ 44,357	\$ 5,195	\$ 49,552
2019	49,845	4,212	54,057
2020	51,410	2,647	54,057
2021	53,024	1,032	54,056
2022	4,493	11	4,504
Total	<u>\$ 203,129</u>	<u>\$ 13,097</u>	<u>\$ 216,226</u>

NOTE 14 – SUBSEQUENT EVENT

On June 12, 2017, the Center’s Board accepted the designation as administrative agent of the Champaign County Family and Children First Council pursuant to Ohio Rev. Code § 121.37 (B)(5)(a), effective July 1, 2017.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
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SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Tuition	\$ 11,571,089	\$ 11,404,935	\$ 11,371,879	\$ (33,056)
Earnings on investments	672	662	763	101
Contributions and donations	1,086	1,070	60	(1,010)
Other local revenues	246,746	243,203	260,086	16,883
Intergovernmental - state	537,286	529,571	486,080	(43,491)
Total receipts	<u>12,356,879</u>	<u>12,179,441</u>	<u>12,118,868</u>	<u>(60,573)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	531,613	519,466	450,501	68,965
Special	4,988,553	4,874,566	4,805,213	69,353
Support services:				
Pupil	4,294,469	4,196,341	4,192,727	3,614
Instructional staff	283,372	276,897	318,920	(42,023)
Board of education	25,391	24,811	21,577	3,234
Administration	1,465,111	1,431,634	1,419,901	11,733
Fiscal	319,089	311,798	585,939	(274,141)
Operations and maintenance	804,198	785,822	421,499	364,323
Pupil transportation	3,172	3,100	3,062	38
Central	159,738	156,088	156,126	(38)
Operation of non-instructional services:				
Other non-instructional services	102	100	100	-
Debt service:				
Principal retirement	-	-	46,871	(46,871)
Interest and fiscal charges	-	-	7,185	(7,185)
Total disbursements	<u>12,874,808</u>	<u>12,580,623</u>	<u>12,429,621</u>	<u>151,002</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(517,929)</u>	<u>(401,182)</u>	<u>(310,753)</u>	<u>90,429</u>
Other financing sources (uses):				
Advances in	160,780	158,471	215,399	56,928
Advances (out)	(204,677)	(200,000)	(241,763)	(41,763)
Total other financing sources (uses)	<u>(43,897)</u>	<u>(41,529)</u>	<u>(26,364)</u>	<u>15,165</u>
Net change in fund cash balance	(561,826)	(442,711)	(337,117)	105,594
Fund cash balance at beginning of year . . .	1,433,330	1,433,330	1,433,330	-
Prior year encumbrances appropriated . . .	197,507	197,507	197,507	-
Fund cash balance at end of year	<u>\$ 1,069,011</u>	<u>\$ 1,188,126</u>	<u>\$ 1,293,720</u>	<u>\$ 105,594</u>

SEE ACCOMPANYING NOTES

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

Net Change in Fund Cash Balance	
	<u>General fund</u>
Cash basis	\$ (260,057)
Funds budgeted elsewhere **	15,547
Adjustment for encumbrances	<u>(92,607)</u>
Budget basis	<u>\$ (337,117)</u>

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

The management's discussion and analysis of the Madison-Champaign Educational Service Center (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2016. The Center has prepared their financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- The total cash-basis net position of the Center was \$1,690,218.
- General receipts accounted for \$893,461 or 7.09% of total governmental activities receipts. Program specific receipts accounted for \$11,713,326 or 92.91% of total governmental activities receipts.
- The Center had \$12,677,950 in disbursements related to governmental activities; \$11,713,326 of these disbursements were offset by program specific charges for services and grants or contributions. General receipts of \$893,461 were not adequate to provide for these programs.
- The Center's major fund is the general fund. The general fund, the Center's largest fund, had total cash receipts and other financing sources of \$12,142,103 in 2016. The cash disbursements and other financing uses of the general fund totaled \$12,221,117. At June 30, 2016, the general fund's cash balance was \$1,655,268.

Using these Basic Financial Statements

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

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the Center as a whole, presenting an aggregate view of the Center's cash-basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. The general fund is the Center's most significant fund.

Reporting the Center as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position - cash basis and the statement of activities - cash basis answer the question, "How did the Center perform financially during 2016?" These statements only present the Center's net position using the cash basis of accounting, which is a financial reporting framework other than accounting principles generally accepted in the United States of America. This financial reporting framework takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources, liabilities and deferred inflows of resources, and the effects of these items on revenues and expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant and food service operations.

The Center's statement of net position - cash basis and statement of activities - cash basis can be found on pages 47-48 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

An analysis of the Center's major governmental funds begins on page 45. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Center's most significant funds. The Center's major governmental fund is the general fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at the year-end available for spending in future periods. The governmental fund financial statements provide a detailed view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be readily spent to finance various Center programs. The Center's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds, whose activity or balances are not large enough to warrant separate reporting, is aggregated and presented in a single column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 51-70 of this report.

Supplementary Information

The Center has presented a budgetary comparison schedule for the general fund as supplementary information on pages 71-72 of this report.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The Center as a Whole

The table below provides a summary of the Center's net position at June 30, 2016 and June 30, 2015.

	Net Position (Cash Basis)	
	Governmental Activities	Governmental Activities
	2016	2015
	<u>2016</u>	<u>2015</u>
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 1,440,218	\$ 1,761,381
<u>Restricted assets:</u>		
Equity in pooled cash and cash equivalents	<u>250,000</u>	<u>-</u>
Total assets	<u>1,690,218</u>	<u>1,761,381</u>
<u>Net Cash Position:</u>		
Restricted	284,950	27,099
Unrestricted	<u>1,405,268</u>	<u>1,734,282</u>
Total net cash position	<u>\$ 1,690,218</u>	<u>\$ 1,761,381</u>

Over time, net cash position can serve as a useful indicator of an entity's financial position. At June 30, 2016, total net cash position of the Center was \$1,690,218. A portion of the Center's net position, \$284,950, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$1,405,268 may be used to meet the Center's ongoing obligations to the students and creditors.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The table below shows the net cash position for the Center at June 30, 2016 and June 30, 2015.

	Change in Net Cash Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Receipts:</u>		
Program revenues:		
Charges for services and sales	\$ 11,176,226	\$ 10,020,967
Operating grants and contributions	537,100	505,558
General revenues:		
Grants and entitlements	508,264	466,534
Investment earnings	727	625
Lease purchase proceeds	250,000	-
Miscellaneous	134,470	160,955
Total receipts	<u>12,606,787</u>	<u>11,154,639</u>
<u>Disbursements:</u>		
Instruction:		
Regular	443,977	355,467
Special	4,783,164	4,250,647
Support services:		
Pupil	4,251,420	3,571,094
Instructional staff	490,328	528,038
Board of education	23,900	19,053
Administration	1,276,713	1,297,329
Fiscal	403,722	314,505
Operations and maintenance	615,419	126,302
Pupil transportation	136,196	131,114
Central	157,106	142,001
Operation of non-instructional services:		
Food service operations	90,865	59,012
Other non-instructional services	100	100
Extracurricular activities	-	143
Debt service:		
Principal retirement	4,223	-
Interest and fiscal charges	817	-
Total disbursements	<u>12,677,950</u>	<u>10,794,805</u>
Change in net cash position	(71,163)	359,834
Net cash position at beginning of year	<u>1,761,381</u>	<u>1,401,547</u>
Net cash position at end of year	<u>\$ 1,690,218</u>	<u>\$ 1,761,381</u>

Governmental Activities

Governmental net cash position was \$1,690,218 at June 30, 2016; total governmental disbursements of \$12,677,950 were offset by program receipts of \$11,713,726 and general receipts of \$893,461. Program receipts supported 92.39% of the total governmental disbursements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

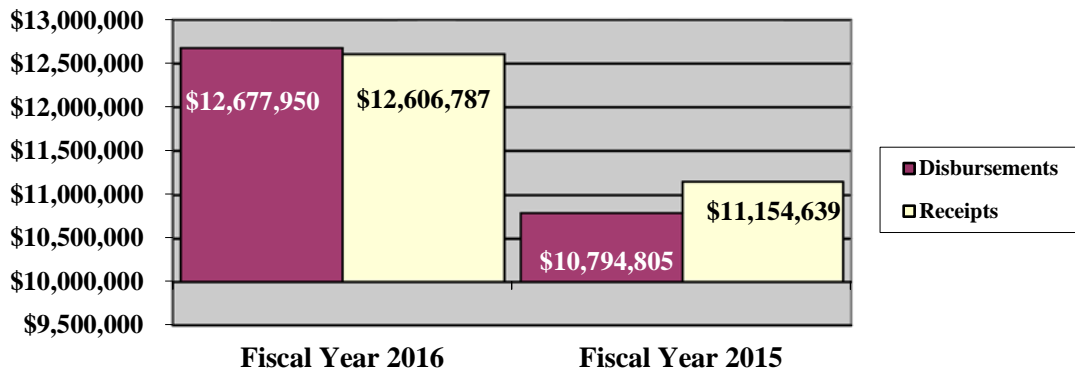
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 88.65% of total governmental cash receipts.

The largest disbursement of the Center is for special instructional programs. Special instructional disbursements totaled \$4,783,164 or 37.73% of total governmental disbursements for fiscal year 2016.

The graph below presents the Center's governmental activities receipts and disbursements for fiscal years 2016 and 2015.

Governmental Activities - Total Receipts vs. Total Disbursements



The statement of activities shows the cost of program services and the charges for services and grants off setting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by miscellaneous receipts, investment earnings and unrestricted state grants and entitlements.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

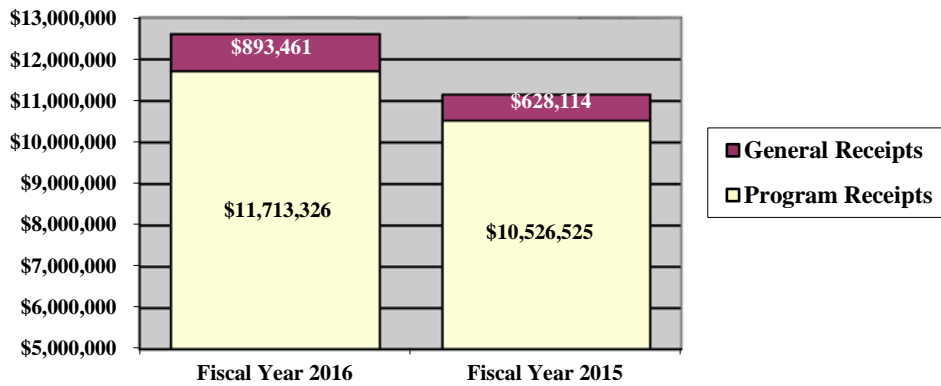
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Disbursements:				
Instruction:				
Regular	\$ 443,977	\$ 16,338	\$ 355,467	\$ (56,966)
Special	4,783,164	(97,418)	4,250,647	(113,464)
Support services:				
Pupil	4,251,420	(10,289)	3,571,094	(66,079)
Instructional staff	490,328	(38,937)	528,038	(11,083)
Board of education	23,900	23,900	19,053	19,053
Administration	1,276,713	(39,789)	1,297,329	(27,191)
Fiscal	403,722	346,227	314,505	275,006
Operations and maintenance	615,419	615,419	126,302	126,302
Pupil transportation	136,196	(16,644)	131,114	(5,828)
Central	157,106	157,106	142,001	142,001
Operation of non-instructional services:				
Food service operations	90,865	3,571	59,012	(13,581)
Other non instructional services	100	100	100	100
Extracurricular activities	-	-	143	10
Debt service:				
Principal retirement	4,223	4,223	-	-
Interest and fiscal charges	817	817	-	-
Total	<u>\$ 12,677,950</u>	<u>\$ 964,624</u>	<u>\$ 10,794,805</u>	<u>\$ 268,280</u>

The graph below presents the Center's governmental activities receipts for fiscal years 2016 and 2015.

Governmental Activities - General and Program Receipts



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

The Center's Funds

At June 30, 2016, the Center's governmental funds reported a combined cash fund balance of \$1,690,218, which is \$71,163 less than last year's total of \$1,761,381. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2016 and June 30, 2015, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2016</u>	Fund Cash Balance <u>June 30, 2015</u>	Increase (Decrease)
Major fund:			
General	\$ 1,655,268	\$ 1,734,282	\$ (79,014)
Other governmental funds	<u>34,950</u>	<u>27,099</u>	<u>7,851</u>
Total	<u>\$ 1,690,218</u>	<u>\$ 1,761,381</u>	<u>\$ (71,163)</u>

General Fund

The general fund, the Center's largest fund, had total receipts and other financing sources of \$12,142,103 in 2016. The disbursements and other financing uses of the general fund, totaled \$12,221,117 in 2016. The general fund's balance was \$1,655,268 at fiscal year-end.

	2016 <u>Amount</u>	2015 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Cash receipts</u>				
Tuition	\$ 11,027,517	\$ 9,950,834	\$ 1,076,683	10.82 %
Other revenues	197,851	163,163	34,688	21.26 %
Intergovernmental	<u>508,264</u>	<u>466,534</u>	<u>41,730</u>	8.94 %
Total	<u>\$ 11,733,632</u>	<u>\$ 10,580,531</u>	<u>\$ 1,153,101</u>	10.90 %
<u>Cash disbursements</u>				
Instruction	\$ 4,947,699	\$ 4,376,138	\$ 571,561	13.06 %
Support services	7,052,879	5,937,587	1,115,292	18.78 %
Other non-instructional services	100	100	-	- %
Debt service	<u>5,040</u>	<u>-</u>	<u>5,040</u>	100.00 %
Total	<u>\$ 12,005,718</u>	<u>\$ 10,313,825</u>	<u>\$ 1,691,893</u>	16.40 %

The Center provided more services to districts during fiscal year 2016, which resulted in an overall increase in general fund tuition receipts and disbursements.

Capital Assets and Debt Administration

Capital Assets

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)

Debt Administration

At June 30, 2016, the Center had \$370,888 in long-term obligations outstanding. Of this amount, \$120,888 represents a capital lease obligation for copiers and \$250,000 represents a lease-purchase agreement obligation for building improvements. \$64,241 is due within one year.

See Note 13 for additional information on the Center's long-term obligations.

Current Issues

The Center, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services with declining revenues. As the preceding information shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Madison and Champaign counties, as well as State Foundation revenue and grants. The need for additional services from school districts will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2017. However, the future financial stability of the Center is not without concerns.

In fiscal year 2012, every educational service center (ESC) in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State. Near the end of fiscal year 2015, the state legislature once again reduced the per student funding for ESCs by 12% for fiscal year 2016, but then increased funding by 9% for fiscal year 2017. Additional reductions in the State's budget will impact the Center and the districts it serves.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matthew Ketcham, Treasurer, Madison-Champaign Educational Service Center, 2200 S. U.S. Highway 68, Urbana, Ohio 43078.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,440,218
Restricted assets:	
Equity in pooled cash and cash equivalents. .	250,000
Total assets.	1,690,218
 Net cash position:	
Restricted for:	
Capital projects	250,000
State funded programs.	12,126
Federally funded programs	6,294
Student activities	1,173
Other purposes	15,357
Unrestricted	1,405,268
Total net cash position.	\$ 1,690,218

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Cash</u>	<u>Program Receipts</u>		<u>Net (Disbursements)</u>
	<u>Disbursements</u>	<u>Charges for</u>	<u>Operating Grants</u>	<u>Receipts and Change</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>in Net Cash Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 443,977	\$ 335,682	\$ 91,957	\$ (16,338)
Special	4,783,164	4,694,848	185,734	97,418
Support services:				
Pupil	4,251,420	4,209,068	52,641	10,289
Instructional staff	490,328	529,088	177	38,937
Board of education	23,900	-	-	(23,900)
Administration	1,276,713	1,314,702	1,800	39,789
Fiscal	403,722	8,133	49,362	(346,227)
Operations and maintenance	615,419	-	-	(615,419)
Pupil transportation	136,196	50,889	101,951	16,644
Central	157,106	-	-	(157,106)
Operation of non-instructional services:				
Food service operations	90,865	33,816	53,478	(3,571)
Other non-instructional services	100	-	-	(100)
Debt service:				
Principal retirement	4,223	-	-	(4,223)
Interest and fiscal charges	817	-	-	(817)
Total governmental activities	<u>\$ 12,677,950</u>	<u>\$ 11,176,226</u>	<u>\$ 537,100</u>	<u>(964,624)</u>
 General receipts:				
Grants and entitlements not restricted				
to specific programs				508,264
Lease purchase proceeds				250,000
Investment earnings				727
Miscellaneous				134,470
Total general receipts				<u>893,461</u>
Change in net cash position				(71,163)
Net cash position at beginning of year				<u>1,761,381</u>
Net cash position at end of year				<u>\$ 1,690,218</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,405,268	\$ 34,950	\$ 1,440,218
Restricted assets:			
Equity in pooled cash and cash equivalents	250,000	-	250,000
Total assets	\$ 1,655,268	\$ 34,950	\$ 1,690,218
Fund cash balances:			
Restricted:			
Capital improvements	\$ 250,000	\$ -	\$ 250,000
Adult education	-	5,405	5,405
Food service operations	-	15,357	15,357
Special education	-	7	7
Other purposes.	-	13,008	13,008
Extracurricular	-	1,173	1,173
Assigned:			
Student instruction	48,053	-	48,053
Student and staff support.	151,782	-	151,782
Subsequent year's appropriations	442,711	-	442,711
Uniform school supplies	1,134	-	1,134
Latchkey program	20,969	-	20,969
Unassigned	740,619	-	740,619
Total fund cash balances.	\$ 1,655,268	\$ 34,950	\$ 1,690,218

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:			
From local sources:			
Tuition	\$ 11,027,517	\$ -	\$ 11,027,517
Earnings on investments	727	-	727
Charges for services	-	33,816	33,816
Classroom materials and fees	460	-	460
Contributions and donations	1,070	161	1,231
Contract services.	-	52,239	52,239
Other local revenues	195,594	-	195,594
Intergovernmental - state	508,264	342,920	851,184
Intergovernmental - federal	-	194,019	194,019
Total receipts.	<u>11,733,632</u>	<u>623,155</u>	<u>12,356,787</u>
Disbursements:			
Current:			
Instruction:			
Regular	330,133	113,844	443,977
Special	4,617,566	165,598	4,783,164
Support services:			
Pupil	4,160,889	90,531	4,251,420
Instructional staff	489,857	471	490,328
Board of education	23,900	-	23,900
Administration	1,262,516	14,197	1,276,713
Fiscal	341,434	62,288	403,722
Operations and maintenance	615,419	-	615,419
Pupil transportation	1,758	134,438	136,196
Central	157,106	-	157,106
Operation of non-instructional services:			
Food service operations.	-	90,865	90,865
Other non-instructional services.	100	-	100
Debt service:			
Principal retirement.	4,223	-	4,223
Interest and fiscal charges	817	-	817
Total disbursements	<u>12,005,718</u>	<u>672,232</u>	<u>12,677,950</u>
Excess of disbursements over receipts.	<u>(272,086)</u>	<u>(49,077)</u>	<u>(321,163)</u>
Other financing sources (uses):			
Advances in	158,471	215,399	373,870
Advances (out).	(215,399)	(158,471)	(373,870)
Lease purchase proceeds.	250,000	-	250,000
Total other financing sources (uses)	<u>193,072</u>	<u>56,928</u>	<u>250,000</u>
Net change in fund cash balances	(79,014)	7,851	(71,163)
Fund cash balances at beginning of year . . .	<u>1,734,282</u>	<u>27,099</u>	<u>1,761,381</u>
Fund cash balances at end of year.	<u>\$ 1,655,268</u>	<u>\$ 34,950</u>	<u>\$ 1,690,218</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is an Educational Service Center as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative and other services to the Graham, Jefferson, Jonathan Alder, Madison-Plains, West Liberty-Salem, Triad Local School Districts, London and Urbana City School Districts and Mechanicsburg Exempted Village School District. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 135 non-certified and 122 certified employees.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. This organization is governed by a board of directors consisting of 11 members: two Superintendents from each county that is represented, one treasurer representative, a student services representative, one city school representative and non-voting independent district representative. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

PUBLIC ENTITY PURCHASING POOLS

Cincinnati USA Regional Chamber Retrospective Group Rating Program

The Center participates in the Cincinnati USA Chamber Retrospective Group Rating Program, an insurance purchasing pool. Each year, the Center pays an enrollment fee to Sheakley to cover the costs of administering the program.

Stark County Schools Council of Governments

The Stark County Schools Council of Governments (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care and dental benefits. The Council is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve on the Board of Directors. The Assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract. Financial information can be obtained from the Treasurer for the Stark County Educational Service Center, who serves as fiscal agent, at 2100 38th Street N.W., Canton, Ohio 44709-2300.

B. Basis of Accounting

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center has no fiduciary funds.

D. Basis of Presentation

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

E. Budgetary Process

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2016, investments were limited to the State Treasury Asset Reserve of Ohio ("STAR Ohio"). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District also implemented GASB Statement No. 79 for 2016. The implementation of this GASB pronouncement had no effect on beginning net position/fund balance. The School District 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 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Interest receipts credited to the general fund during fiscal year 2016 amounted to \$727, which includes \$13 of interest assigned from other funds.

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

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the cash basis of accounting.

K. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Center reports \$250,000 in restricted assets for lease purchase proceeds received and not spent as of June 30, 2016.

L. Inventory and Prepaid Items

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

M. Interfund Receivables/Payables

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Interfund Transactions

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

O. Fund Cash Balance

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

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

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

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

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

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

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

P. Net Cash Position

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

Q. 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the Center has implemented 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 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Center.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Center.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement 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 Center.

GASB Statement No. 79 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. The implementation of GASB Statement No. 79 had no effect on net position or fund balances.

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the Center had \$400 in undeposited cash on hand which is included on the financial statements of the Center as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all Center deposits was \$1,681,893. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$1,240,331 of the Center’s bank balance of \$1,740,331 was exposed to custodial risk as discussed below, while \$500,000 was covered by FDIC.

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

C. Investments

As of June 30, 2016, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 7,925	\$ 7,925

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center has no investment policy dealing with investments credit risk beyond the requirements in State statutes.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The following table includes the percentage of each investment type held by the Center at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of total</u>
STAR Ohio	\$ 7,925	100.00

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

The following is a reconciliation of cash and investments reported in the note above to cash as reported on the statement of net position – cash basis as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,681,893
Investments	7,925
Cash on hand	<u>400</u>
Total	<u>\$ 1,690,218</u>
 <u>Cash and investments per statement of net position - cash basis</u>	
Governmental activities	<u>\$ 1,690,218</u>

NOTE 5 - RISK MANAGEMENT

A. Risk Pool Membership

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Center contracted for the following insurance coverages:

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

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

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

B. Employee Medical Benefits

For fiscal year 2016, the Center has contracted with the Stark County Schools Council of Governments (a shared risk pool) (Note 2.A) to provide health insurance, prescription drug benefits, dental insurance, vision insurance, and life insurance. Rates are set through an annual calculation process. The Center pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating entities. The Center's Governing Board pays a percentage of the premiums. Insurance premiums will vary with each employee depending on marital and family status.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 5 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

For fiscal year 2016, the Center participated in the Cincinnati USA Chamber of Commerce retrospective group rating program (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience, and a common premium rate is applied to all entities 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. Participation in the GRP is limited to entities that can meet the GRP's selection criteria. The firm of Sheakley UniComp provides administrative, cost control, and actuarial services to the GRP.

NOTE 6 - 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 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.

The Ohio Revised Code limits the Center's obligation for this liability to annually required payments. The Center cannot control benefit terms or the manner in which pensions are financed; however, the 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 - The 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

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 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. None of the employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$370,022 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description - Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS Ohio. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

Age and service requirements for retirement increased 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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio 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, 2015, 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 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 Center's contractually required contribution to STRS Ohio was \$731,061 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 Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

	SERS	STRS Ohio	Total
Proportionate share of the net pension liability	\$ 3,950,782	\$ 13,245,892	\$ 17,196,674
Proportion of the net pension liability	0.06923790%	0.04792798%	

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 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

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

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Center's proportionate share of the net pension liability	\$ 5,478,315	\$ 3,950,782	\$ 2,664,473

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 Center's net pension liability is expected to be significant.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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 increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in the June 30, 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 Ohio's 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	<u>1.00</u>	3.00
Total	<u><u>100.00 %</u></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 Ohio's 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.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 6 - PENSION PLANS - (Continued)

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the 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 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%)
Center's proportionate share of the net pension liability	\$ 18,399,543	\$ 13,245,892	\$ 8,887,711

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The 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, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 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 Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$35,745, \$17,092, and \$2,899, respectively. 100 percent has been contributed for fiscal years 2016, 2015, and 2014.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$49,101, respectively; 100 percent has been contributed for fiscal year 2014.

NOTE 8 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 9 - OTHER COMMITMENTS

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

<u>Fund Type</u>	<u>Fiscal Year-End Encumbrances</u>
General fund	\$ 206,393
Other governmental	<u>57,960</u>
Total	<u>\$ 264,353</u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 10 - INTERFUND TRANSACTIONS

Interfund transactions for the fiscal year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Advances from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 215,399
<u>Advances from nonmajor governmental funds to:</u>	
General fund	<u>158,471</u>
Total	<u>\$ 373,870</u>

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

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

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

NOTE 11 - STATE FUNDING

The Center's funding comes from two sources; State and local funding.

The State per-pupil portion of the budget is approximately \$27.00 per pupil.

The local part of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the local school districts to which the Center provides services from payments made under the State's foundation program.

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current year, the Center has entered into capital leases for copiers. The terms of the lease agreement provide an option to purchase the copiers.

Principal payments in fiscal year 2016 totaled \$4,223. This amount is reflected as debt service principal retirement in the general fund.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 30,240
2018	30,240
2019	30,240
2020	30,240
2021	<u>25,200</u>
Total minimum lease payments	146,160
Less amount representing interest	<u>(25,272)</u>
Total	<u><u>\$ 120,888</u></u>

NOTE 13 - LONG-TERM OBLIGATIONS

The table that follows summarizes the changes in the Center's long-term obligations during fiscal year 2016.

	<u>Balance</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2016</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Lease-purchase agreement	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ 42,901
Capital lease obligation	<u>-</u>	<u>125,111</u>	<u>(4,223)</u>	<u>120,888</u>	<u>21,340</u>
Total governmental activities	<u><u>\$ -</u></u>	<u><u>\$ 375,111</u></u>	<u><u>\$ (4,223)</u></u>	<u><u>\$ 370,888</u></u>	<u><u>\$ 64,241</u></u>

Lease purchase agreement - On May 20, 2016, the Center entered into a lease purchase agreement in order to provide funds to rehabilitate the building at 2200 S. U.S. Highway 68, Urbana, Ohio 43078. The lease purchase agreement bears an interest rate of 3.03% and requires 60 monthly payments beginning August 1, 2016. The Center will repay this obligation from the general fund.

<u>Fiscal</u> <u>Year Ended</u>	<u>Lease purchase agreement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 42,901	\$ 6,651	\$ 49,552
2018	48,327	5,729	54,056
2019	49,845	4,212	54,057
2020	51,410	2,647	54,057
2021	53,024	1,032	54,056
2022	<u>4,493</u>	<u>12</u>	<u>4,505</u>
Total	<u><u>\$ 250,000</u></u>	<u><u>\$ 20,283</u></u>	<u><u>\$ 270,283</u></u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Tuition	\$ 9,633,704	\$ 10,926,665	\$ 10,890,076	\$ (36,589)
Earnings on investments	661	750	727	(23)
Contributions and donations	882	1,000	1,070	70
Other local revenues	174,624	198,061	195,594	(2,467)
Intergovernmental - state	544,066	617,086	508,264	(108,822)
Total receipts	<u>10,353,937</u>	<u>11,743,562</u>	<u>11,595,731</u>	<u>(147,831)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	346,876	373,065	364,560	8,505
Special	4,431,861	4,766,466	4,630,396	136,070
Support services:				
Pupil	3,760,781	4,044,719	4,011,230	33,489
Instructional staff	381,158	409,935	517,471	(107,536)
Board of education	19,511	20,984	27,880	(6,896)
Administration	1,230,780	1,323,704	1,272,418	51,286
Fiscal	301,398	324,154	334,178	(10,024)
Operations and maintenance	604,333	649,960	726,921	(76,961)
Pupil transportation	1,674	1,800	1,758	42
Central	139,293	149,810	157,861	(8,051)
Operation of non-instructional services:				
Other non-instructional services	93	100	100	-
Total disbursements	<u>11,217,758</u>	<u>12,064,697</u>	<u>12,044,773</u>	<u>19,924</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(863,821)</u>	<u>(321,135)</u>	<u>(449,042)</u>	<u>(127,907)</u>
Other financing sources (uses):				
Lease purchase proceeds	220,417	250,000	250,000	
Advances in	139,719	158,471	158,471	-
Advances (out)	(200,278)	(215,399)	(215,399)	-
Total other financing sources (uses)	<u>159,858</u>	<u>193,072</u>	<u>193,072</u>	<u>-</u>
Net change in fund cash balance	(703,963)	(128,063)	(255,970)	(127,907)
Fund cash balance at beginning of year . . .	1,660,716	1,660,716	1,660,716	-
Prior year encumbrances appropriated . . .	28,584	28,584	28,584	-
Fund cash balance at end of year	<u>\$ 985,337</u>	<u>\$ 1,561,237</u>	<u>\$ 1,433,330</u>	<u>\$ (127,907)</u>

SEE ACCOMPANYING NOTES

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY, OHIO**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

Net Change in Fund Cash Balance	
	<u>General fund</u>
Cash basis	\$ (79,014)
Funds budgeted elsewhere **	20,551
Adjustment for encumbrances	<u>(197,507)</u>
Budget basis	<u>\$ (255,970)</u>

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



Dave Yost • Auditor of State

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

Madison-Champaign Educational Service Center
Champaign County
2200 South U.S. Highway 68
Urbana, Ohio 46078

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 cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Madison-Champaign Educational Service Center, Champaign County, (the 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 Center's basic financial statements and have issued our report thereon dated July 30, 2018, wherein we noted the 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 Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Center's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Center's Response to Finding

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

July 30, 2018

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN 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

Noncompliance

Ohio Rev. Code § 117.38 provides, in part, that each public office, other than a state agency, 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. The report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code § 117-2-03(B) requires the Center to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). For fiscal years 2016 and 2017, the Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Additionally, the Center did not file its cash basis report within sixty days after year end for fiscal year 2017. The Center filed the fiscal year 2017 report on November 29, 2017. Pursuant to Ohio Rev. Code Section 117.38, the Center may be fined and subject to various other administrative remedies for its failure to file the required GAAP financial reports timely.

The Center should prepare the financial statements according to generally accepted accounting principles to provide users with more meaningful financial statements. The Center should also implement procedures to timely submit the annual financial reports.

Officials' Response:

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



**Madison-Champaign
Educational Service Center**

We Work to Serve

Dr. Daniel Kaffenbarger, Superintendent
Matthew Ketcham, Treasurer

.....**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2015-001	FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	Not Corrected Repeated as Finding 2017-001	The Governing Board and Management of the Center are knowledgeable concerning the required reporting format (Generally Accepted Accounting Principles) and the similarities and differences from the required reporting format and the method currently incorporated by the Center (Cash Basis of Accounting). Center personnel considered the cost benefit of the two reporting formats and determined reporting of the Cash Basis of Accounting format to be the more fiscally responsible format at this time.



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Dave Yost • Auditor of State

MADISON CHAMPAIGN EDUCATIONAL SERVICE CENTER

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 28, 2018**