



Dave Yost • Auditor of State

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Auglaize County Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, OH 45895

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the 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 Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Educational Service Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Auglaize County Educational Service Center, Auglaize County, Ohio, as of June 30, 2017, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the 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 Schedule of Expenditures of Federal Awards (the Schedule) presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule 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, this Schedule is 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

May 3, 2018

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, assets of governmental activities decreased \$135,366 which represents a 3.69% decrease from 2016.
- General cash receipts accounted for \$551,412 or 6.01% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, operating grants and contributions accounted for \$8,620,550 or 93.99% of total governmental activities cash receipts of \$9,171,962.
- The Educational Service Center had \$9,307,328 in cash disbursements related to governmental activities; \$8,620,550 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$551,412 were not adequate to provide for these programs.
- The Educational Service Center's major governmental funds are the general fund and the autism fund. The general fund had \$7,538,955 in cash receipts and \$7,761,941 in cash disbursements. During fiscal year 2017, the general fund's fund cash balance decreased \$222,986 from \$3,791,512 to \$3,568,526.
- The autism fund had \$1,107,441 in cash receipts and \$1,108,508 in cash disbursements. During fiscal year 2017, the autism fund's fund cash balance decreased \$1,067 from a deficit cash balance of \$33,146 to a deficit of \$34,213.

Using these Cash Basis 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 applicable to the Educational Service 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 whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's cash basis finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Educational Service Center, the general fund and the autism fund are by far the most significant funds, and the only governmental funds reported as a major funds.

Reporting the Educational Service Center as a Whole

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

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

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

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

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

The Educational Service Center's statement of net position - cash basis and statement of activities - cash basis can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major governmental funds begins on page 10. Fund financial reports provide detailed information about the Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental funds are the general fund and the autism fund.

Governmental Funds

All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the Educational Service Center is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross receipts and disbursements on the fund financial statements to the statement of activities - cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities - cash basis. The governmental fund statements can be found on pages 15-16 of this report.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the cash basis basic financial statements can be found on pages 17-37 of this report.

The Educational Service Center as a Whole

Recall that the statement of net position - cash basis provides the perspective of the Educational Service Center as a whole.

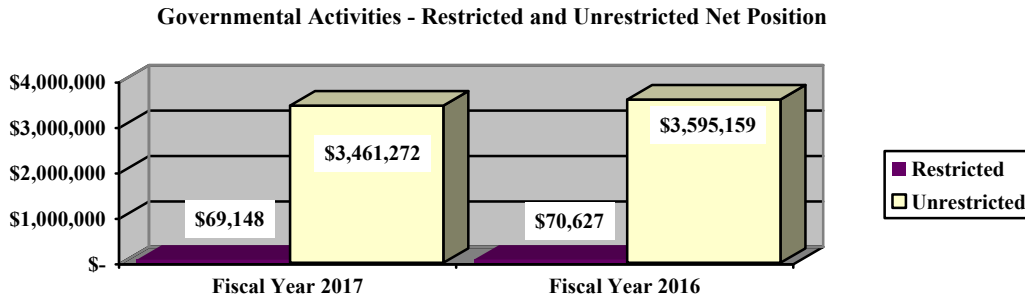
The table below provides a summary of the Educational Service Center's net cash position for 2017 and 2016.

	Net Position	
	Governmental Activities 2017	Governmental Activities 2016
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 3,530,420	\$ 3,665,786
<u>Net Position</u>		
Restricted	\$ 69,148	\$ 70,627
Unrestricted	3,461,272	3,595,159
Total net position	\$ 3,530,420	\$ 3,665,786

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Educational Service Center's total net position was \$3,530,420.

A portion of the Educational Service Center's net position, \$69,148, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net position of \$3,461,272 may be used to meet the Educational Service Center's ongoing obligations to students and creditors.

The graph below presents the Educational Service Center's governmental activities restricted and unrestricted cash position for fiscal years 2017 and 2016.



**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

The table below shows the change in net cash position for fiscal years 2017 and 2016.

	Change in Net Position	
	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<u>Cash Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 6,987,543	\$ 7,827,117
Operating grants and contributions	1,633,007	1,737,952
General cash receipts:		
Grants and entitlements	352,110	339,636
Investment earnings	4,866	3,045
Miscellaneous	<u>194,436</u>	<u>158,236</u>
Total cash receipts	<u>9,171,962</u>	<u>10,065,986</u>
<u>Cash Disbursements</u>		
Program disbursements:		
Instruction:		
Regular	\$ 1,818,579	\$ 2,357,575
Special	2,895,381	3,080,235
Adult/continuing	-	154
Support services:		
Pupil	1,956,928	1,929,512
Instructional staff	371,161	336,875
Board of education	20,515	28,897
Administration	1,842,648	1,648,384
Fiscal	157,460	154,480
Operations and maintenance	125,994	173,074
Pupil transportation	82,940	63,108
Central	<u>35,722</u>	<u>32,084</u>
Total cash disbursements	<u>9,307,328</u>	<u>9,804,378</u>
Change in net position	<u>(135,366)</u>	<u>261,608</u>
Net position at beginning of year	<u>3,665,786</u>	<u>3,404,178</u>
Net position at end of year	<u>\$ 3,530,420</u>	<u>\$ 3,665,786</u>

Governmental Activities

Net position of the Educational Service Center's governmental activities decreased \$135,366. Total governmental cash disbursements of \$9,307,328 were offset by program cash receipts of \$8,620,550 and general cash receipts of \$551,412. Program cash receipts supported 92.62% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts represent 76.18% of total governmental cash receipts.

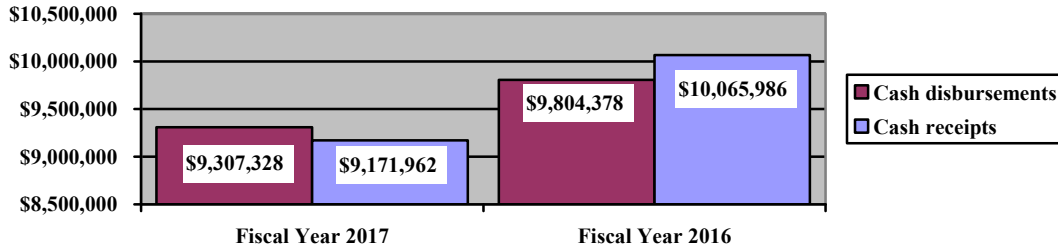
**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

The largest cash disbursement of the Educational Service Center is for instructional services. Instructional services cash disbursements totaled \$4,713,960 or 50.65% of total governmental cash disbursements for fiscal year 2017.

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

Governmental Activities - Cash Receipts and Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>
Program cash disbursements				
Instruction:				
Regular	\$ 1,818,579	\$ 174,954	\$ 2,357,575	\$ 137,859
Special	2,895,381	284,144	3,080,235	(229,874)
Adult/Continuing	-	-	154	154
Support services:				
Pupil	1,956,928	193,240	1,929,512	112,977
Instructional staff	371,161	41,902	336,875	30,299
Board of education	20,515	2,047	28,897	1,692
Administration	1,842,648	(44,049)	1,648,384	159,886
Fiscal	157,460	14,526	154,480	10,204
Operations and maintenance	125,994	8,354	173,074	10,641
Pupil transportation	82,940	8,275	63,108	1,897
Central	<u>35,722</u>	<u>3,385</u>	<u>32,084</u>	<u>3,574</u>
Total cash disbursements	<u>\$ 9,307,328</u>	<u>\$ 686,778</u>	<u>\$ 9,804,378</u>	<u>\$ 239,309</u>

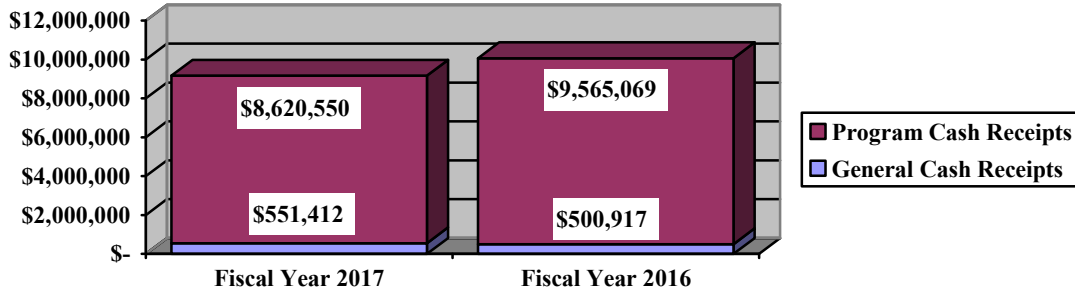
The Educational Service Center primarily depends upon charges for services provided by member districts; however, dependence upon other general cash receipts for governmental activities is apparent as 11.06% of instructional activities are supported through grants and entitlements (including State foundation) and other general cash receipts. For all governmental activities, general cash receipt support is 7.38%.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

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

Governmental Activities - General and Program Cash Receipts



The Educational Service Center's Funds

The Educational Service Center's governmental funds reported a combined fund cash balance of \$3,530,420, which is less than last year's total of \$3,665,786. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2017 and 2016.

	Fund Cash Balance <u>June 30, 2017</u>	Fund Cash Balance <u>June 30, 2016</u>	<u>Change</u>	<u>Percentage Change</u>
General	\$ 3,568,526	\$ 3,791,512	\$ (222,986)	(5.88) %
Autism	(34,213)	(33,146)	(1,067)	3.22 %
Other Governmental	<u>(3,893)</u>	<u>(92,580)</u>	<u>88,687</u>	(95.79) %
Total	<u>\$ 3,530,420</u>	<u>\$ 3,665,786</u>	<u>\$ (135,366)</u>	(3.69) %

General Fund

The Educational Service Center's general fund cash balance decreased \$222,986 during fiscal year 2017.

Customer services decreased \$1,250,269, or 16.09% mainly due to the Educational Service Center reducing the services provided to one of their large city districts. Overall, revenues for the Educational Service Center decreased \$1,209,671 or 13.83% in fiscal year 2017.

Instructional disbursements decreased \$745,077 or 13.89% from 2016 due to the Educational Service Center hiring all of the large city district's special education staff in fiscal year 2016 and the city district hired them in fiscal year 2017. Overall, disbursements for the Educational Service Center decreased \$552,343 or 6.64% in fiscal year 2017.

Autism Fund

The autism fund had \$1,107,441 in cash receipts and \$1,108,508 in cash disbursements. During fiscal year 2017, the autism fund's fund cash balance decreased \$1,067 from a cash balance deficit of \$33,146 to a deficit of \$34,213.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

At June 30, 2017, the Educational Service Center had \$12,308 in capital lease agreements.

See Note 5 to the basic financial statements for additional information on the ESC's capital lease agreements.

Contacting the Educational Service Center's Financial Management

The financial report is designed to provide citizens, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money received. Questions about the report may be directed to: Kristy L. Weeks, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,530,420
Total assets.	\$ 3,530,420
 Net position:	
Restricted for:	
Locally funded programs	\$ 2,007
State funded programs.	13
Federally funded programs	10,681
Professional development.	56,391
Other purposes	56
Unrestricted	3,461,272
Total net position.	\$ 3,530,420

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

	Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Change in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 1,818,579	\$ 1,598,739	\$ 44,886	\$ (174,954)
Special	2,895,381	2,559,252	51,985	(284,144)
Support services:				
Pupil	1,956,928	1,761,688	2,000	(193,240)
Instructional staff	371,161	286,405	42,854	(41,902)
Board of education	20,515	18,468	-	(2,047)
Administration	1,842,648	443,667	1,443,030	44,049
Fiscal	157,460	139,109	3,825	(14,526)
Operations and maintenance	125,994	75,013	42,627	(8,354)
Pupil transportation	82,940	74,665	-	(8,275)
Central	35,722	30,537	1,800	(3,385)
Total governmental activities	<u>\$ 9,307,328</u>	<u>\$ 6,987,543</u>	<u>\$ 1,633,007</u>	<u>(686,778)</u>
General receipts:				
Grants and entitlements not restricted to specific programs				352,110
Investment earnings				4,866
Miscellaneous				194,436
Total general receipts				<u>551,412</u>
Change in net position				(135,366)
Net position at beginning of year				<u>3,665,786</u>
Net position at end of year				<u>\$ 3,530,420</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

	<u>General</u>	<u>Autism</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 3,568,526	\$ (34,213)	\$ (3,893)	\$ 3,530,420
Total assets	<u>\$ 3,568,526</u>	<u>\$ (34,213)</u>	<u>\$ (3,893)</u>	<u>\$ 3,530,420</u>
Fund balances:				
Restricted:				
Education management information systems .	\$ -	\$ -	\$ 13	\$ 13
Professional development.	-	-	56,447	56,447
Other purposes.	-	-	2,007	2,007
Federally funded	-	-	10,681	10,681
Assigned:				
Background checks.	10,405	-	-	10,405
Educational activities.	10,978	-	-	10,978
Professional development.	45,257	-	-	45,257
Special instruction.	496,368	-	-	496,368
Unpaid obligations.	79,814	-	-	79,814
Unassigned (deficit)	2,925,704	(34,213)	(73,041)	2,818,450
Total fund balances (deficit)	<u>\$ 3,568,526</u>	<u>\$ (34,213)</u>	<u>\$ (3,893)</u>	<u>\$ 3,530,420</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

	<u>General</u>	<u>Autism</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Customer Services	\$ 6,518,840	\$ -	\$ -	\$ 6,518,840
Earnings on investments	4,866	-	-	4,866
Extracurricular	11,524	-	-	11,524
Classroom materials and fees	1,348	-	-	1,348
Rental income	56,645	-	-	56,645
Contributions and donations	1,360	-	600	1,960
Contract services	468,703	-	-	468,703
Other local revenues	123,559	-	35,800	159,359
Intergovernmental - state	352,110	-	263,180	615,290
Intergovernmental - federal	-	1,107,441	225,986	1,333,427
Total receipts	<u>7,538,955</u>	<u>1,107,441</u>	<u>525,566</u>	<u>9,171,962</u>
Disbursements:				
Current:				
Instruction:				
Regular	1,775,920	-	42,659	1,818,579
Special	2,842,882	-	52,499	2,895,381
Support services:				
Pupil	1,956,928	-	-	1,956,928
Instructional staff	318,146	5,985	47,030	371,161
Board of education	20,515	-	-	20,515
Administration	492,836	1,059,855	289,957	1,842,648
Fiscal	154,526	-	2,934	157,460
Operations and maintenance	83,326	42,668	-	125,994
Pupil transportation	82,940	-	-	82,940
Central	33,922	-	1,800	35,722
Total disbursements	<u>7,761,941</u>	<u>1,108,508</u>	<u>436,879</u>	<u>9,307,328</u>
Net change in fund balances	(222,986)	(1,067)	88,687	(135,366)
Fund balances (deficit) at beginning of year .	<u>3,791,512</u>	<u>(33,146)</u>	<u>(92,580)</u>	<u>3,665,786</u>
Fund balances (deficit) at end of year	<u>\$ 3,568,526</u>	<u>\$ (34,213)</u>	<u>\$ (3,893)</u>	<u>\$ 3,530,420</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ENTITY

The Auglaize County Educational Service Center (the “Educational Service Center”) is located in Wapakoneta, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Minster, New Bremen, New Knoxville, and Waynesfield-Goshen Local School Districts, the St. Marys and Wapakoneta City School Districts, Ada, Hardin Northern, Kenton, and Ridgemont schools in Hardin County, and the Auglaize County Educational Academy (community school). The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 23 administrators, 111 classified employees, and 55 certified employees who provide services to the local and city school districts and the community school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

The Educational Service Center is associated with two jointly governed organizations and three insurance pools. These organizations are the Western Ohio Computer Organization, Auglaize County Educational Academy, Schools of Ohio Risk Sharing Authority, Mercer-Auglaize Area School Regional Council of Governments and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 11 and 12 to the basic financial statements.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

B. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net position presents the cash balance of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Educational Service Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Educational Service Center's general receipts.

Fund Financial Statements - During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

C. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center only has governmental funds.

GOVERNMENTAL FUNDS

The Educational Service Center classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The Educational Service Center's major funds are the general fund and the autism fund.

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

Autism Fund - The autism fund is used to account for IDEA B federal grants restricted to providing support services to teacher.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY, OHIO**

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

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

The other governmental funds of the Educational Service Center account for grants and other resources who use is restricted, committed or assigned to a particular purpose.

D. Basis of Accounting

The Educational Service Center's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

E. Cash and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2017, the Educational Service Center's investments were limited to US Government money market accounts.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the general fund during fiscal year 2017 was \$4,866.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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 used by the Educational Service Center.

H. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

I. Net Position

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. Fund Balance

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

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

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

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

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

K. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2017, this consisted of the Third Grade Reading and Preschool Handicapped special revenue funds.

L. 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.”

M. Budgetary Process

In fiscal year 2004, the Educational Service Center’s requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center is discretionary, the Educational Service Center’s Board does approve appropriations and estimated resources for all funds for control purposes. The Educational Service Center’s Board adopts an annual appropriation resolution, which is the Board’s authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Board. The level of control has been established by the Board at the fund and function level for the general fund and the fund level for all other funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. Throughout the fiscal year, appropriations may be authorized or supplemented as circumstances warrant. The Educational Service Center has elected to not present budgetary schedules as supplementary information for the general fund and the major special revenue fund.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the Educational Service 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 Educational Service Center.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 Educational Service 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 Educational Service Center.

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 Educational Service Center.

B. Deficit Fund Balances

Fund balances at June 30, 2017 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
Autism	\$ 34,213
 <u>Nonmajor funds</u>	
Miscellaneous state grants	41,002
Preschool grant for handicapped	32,039

These deficit cash balances resulted from a lag between disbursements made by the Educational Service Center and reimbursements from grantors and are allowable under Ohio Revised Code §3315.20.

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AUGLAIZE COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Educational Service 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, deferred outflows of resources, liabilities, deferred inflows of resources, net cash position/fund cash balances, and disclosures that, while material, cannot be determined at this time. The Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer’s investment pool (STAR Ohio);
8. Commercial paper and bankers’ acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service 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.

A. Cash on Hand

As of June 30, 2017, the Educational Service Center has \$200 deposited in cash on hand. The amount is included in equity in pooled cash and cash equivalents.

B. Deposits

At June 30, 2017, the carrying amount of all the Educational Service Center deposits was \$2,507,739. Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$2,679,031 of the Educational Service Center’s bank balance of \$2,929,031 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

C. Investments

As of June 30, 2017, the Educational Service Center had the following investments:

<u>Investment type</u>	<u>Total</u>	Investment Maturities 6 months or <u>less</u>
US Government Money Market	\$ <u>1,022,481</u>	\$ <u>1,022,481</u>

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless matched to a specific obligation or debt of the Educational Service Center. The Treasurer is also restricted from purchasing investments that cannot be held until the maturity date.

The US Government money market carries a rating of AAAm by Standard & Poor's. The Educational Service Center has no policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds in eligible securities must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,507,739
Investments	1,022,481
Cash on hand	<u>200</u>
Total	<u>\$ 3,530,420</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	
Total	<u>\$ 3,530,420</u>

NOTE 5 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current fiscal year, the Educational Service Center entered into capitalized leases for scanning equipment. Capital lease payments are reflected as administration expenditures in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease 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	\$ 3,061
2019	3,060
2020	3,060
2021	3,060
2022	<u>1,530</u>
Total	13,771
Less: amount representing interest	<u>(1,463)</u>
Present value of minimum lease payments	<u>\$ 12,308</u>

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 6 - STATE FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's school districts based on each school district's total student count. The State Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the school districts agree to the services and the apportionment of the costs.

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$27.00 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlements of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with local, city, exempted village, joint vocational, or cooperative education school districts to provide special education and related services or career technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

NOTE 7 - RISK MANAGEMENT

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

Coverage provided by the Schools of Ohio Risk Sharing Authority is as follows:

General Liability	
Occurrence	\$ 15,000,000
Aggregate	17,000,000
Automobile Liability	15,000,000
Building and Contents	

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

For fiscal year 2017, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 7 - RISK MANAGEMENT - (Continued)

The Educational Service Center participates in the Mercer-Auglaize Area School Regional Council of Governments (COG), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Educational Service Center pays monthly premiums to the COG for employee medical and dental insurance coverage. The COG is responsible for the management and operations of the program. Upon withdrawal from the COG, a participant is responsible for the payment of all COG liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan.

NOTE 8 - 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 Educational Service Center's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year 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 Educational Service Center's contractually required contribution to SERS was \$272,049 for fiscal year 2017.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - County 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 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - PENSION PLANS - (Continued)

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 Educational Service 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 Educational Service Center's contractually required contribution to STRS Ohio was \$478,297 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 Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.06482760%	0.04076862%	
Proportion of the net pension liability current measurement date	<u>0.06527460%</u>	<u>0.03975116%</u>	
Change in proportionate share	<u>0.00044700%</u>	<u>-0.00101746%</u>	
Proportionate share of the net pension liability	\$ 4,777,498	\$ 13,305,911	\$ 18,083,409

Actuarial Assumptions - SERS

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

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

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

NOTE 8 - PENSION PLANS - (Continued)

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.

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - 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 %	0.50 %
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	10.00	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.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Educational Service Center's proportionate share of the net pension liability	\$ 6,325,110	\$ 4,777,498	\$ 3,482,083

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:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - PENSION PLANS - (Continued)

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:

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

*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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 8 - PENSION PLANS - (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$ 17,682,475	\$ 13,305,911	\$ 9,614,022

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

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

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

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

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 Educational Service Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$32,300, \$32,921, and \$48,323, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

Plan Description - The Educational Service 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 Educational Service Center's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from State laws. Eleven and twelve-month employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to eleven and twelve-month employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of forty-five days for all employees with ten or more years of service.

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Health Care Benefits

The Educational Service Center offers medical and dental insurance to most employees through the Mercer-Auglaize Area School Regional Council of Governments. Vision insurance is offered through Vision Service Plan. In addition, the Educational Service Center offers life insurance through American United Life Insurance Company.

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Educational Service Center is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter educational entities within each county plus a representative from the fiscal agent educational entity. During fiscal year 2017, the Educational Service Center paid \$43,255 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

B. Auglaize County Educational Academy

The Educational Service Center is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts.

Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Wapakoneta, Ohio 45895.

NOTE 12 - INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

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

NOTE 12 - INSURANCE POOLS - (Continued)

B. Mercer-Auglaize Area School Regional Council of Governments

The Educational Service Center participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer-Auglaize Area School Regional Council of Government (COG) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the COG is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 13 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2017.

B. Litigation

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

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education (Passed through Ohio Department of Education)		
Special Education Cluster:		
State Support Team Region 6		
Special Education-Grants to States	84.027	<u>\$1,108,507</u>
Auglaize County Educational Service Center		
Special Education-Preschool Grants	84.173	51,866
State Support Team Region 6		
Special Education-Preschool Grants	84.173	<u>112,035</u>
Total Special Education-Preschool Grants		<u>163,901</u>
Total Special Education Cluster		<u>1,272,408</u>
State Support Team Region 6		
Special Education-State Personnel Development	84.323	16,342
ARRA - Race to the Top Early Learning Challenge	84.412	<u>282</u>
Total U.S. Department of Education		<u>1,289,032</u>
Total Expenditures of Federal Awards		<u><u>\$1,289,032</u></u>

See accompanying notes to the Schedule of Expenditure of Federal Awards.

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**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Auglaize County Educational Service Center (the Educational Service Center) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Educational Service Center, it is not intended to and does not present the financial position or changes in net position of the Educational Service Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Educational Service Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – FEDERAL AWARDS EXPENDITURES ADMINISTERED FOR OTHER GOVERNMENTS

The Educational Service Center applies for and administers grants on behalf of member school districts. The Educational Service Center reports these grants on their Schedule and they are subject to audit during the Educational Service Center's annual audit according to the Uniform Guidance. Awards which were reported by the Educational Service Center that benefited member districts are as follows:

School District	Fiscal Year 2017 Award Special Education
Minster Local School District	\$6,317.65
New Bremen Local School District	7,284.00
New Knoxville Local School District	3,645.75
St. Marys City School District	24,304.88
Total Grant	\$41,552.28

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2016 to 2017 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Special Education - Grants to States	84.027	\$256,793.64
Special Education State Preschool Development	84.323	15,305.60

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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)**

NOTE E – STATE SUPPORT TEAM REGION 6 (SST6)

The State Support Team Region 6 (SST6) is an organization comprised of the Educational Service Centers in Allen, Auglaize, Champaign, Hardin, Logan, Mercer and Shelby Counties. The purpose of the organization is to assist schools to develop quality special education programs and services. The SST6 is funded through the Ohio Department of Education in the form of Special Education Grants to States and Special Education Preschool Grants federal grants. The Educational Service Center serves as fiscal agent for the State Support Team Region 6 and reports the activity within a special revenue fund in the financial statements. The Federal grants are audited as part of the Educational Service Center and are separately identified on the Schedule of Expenditures of Federal Awards.



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*

Auglaize County Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, OH 45895

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Auglaize County Educational Service Center, Auglaize County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated May 3, 2018, wherein we noted the Educational Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a significant deficiency. We consider finding 2017-002 to be a significant deficiency.

Compliance and Other Matters

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

Educational Service Center's Response to Findings

The Educational Service Center's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Plan. We did not audit the Educational Service Center's responses and, accordingly, we express no opinion on them.

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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

May 3, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Auglaize County Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite 2
Wapakoneta, Ohio 45895

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Auglaize County Educational Service Center, Auglaize county, Ohio's (the Educational Service Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Auglaize County Educational Service Center's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

Management's Responsibility

The Educational Service Center's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Educational Service Center's compliance for the Educational Service Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Auglaize County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

May 3, 2018

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: CFDA #84.027 – Special Education-Grants to States; CFDA #84.173 – Special Education-Preschool Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR Part 200.520?	No

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

FINDING NUMBER 2017-001

Noncompliance – Failure to File GAAP

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. Ohio Administrative Code § 117-2-03(B) further clarifies the requirements of Ohio Rev. Code § 117.38.

**FINDING NUMBER 2017-001
(Continued)**

Ohio Admin. Code § 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Educational Service Center prepared its financial statements for fiscal year 2017 in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, deferred inflows/outflows, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the Educational Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Educational Service Center should prepare its annual financial statements in accordance with GAAP to include assets, liabilities, deferred inflows/outflows, equity and the disclosures required to accurately and completely present the Educational Service Center's financial condition.

Official's Response:

See the Corrective Action Plan.

FINDING NUMBER 2017-002

Significant Deficiency – Proper Recording of Financial Activity

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

The Educational Service Center did not properly record all receipt and disbursement transactions. During fiscal year 2017, receipts from various school districts for speech, occupational therapy, and physical therapy services in the amount of \$922,004 was incorrectly posted as a reduction of an expenditure when received, resulting in an understatement of customer services revenue and related pupil expenditures on the financial statements. The adjustment is reflected on the audited financial statements.

Failure to report revenue and expenditure activity, could lead to material misstatement of financial information.

The Treasurer should review all postings to the USAS system and post revenue and expenditure activity in gross amounts to properly reflect actual financial activity. Policies and procedures should be developed and implemented to verify that all receipts and disbursements are posted in correct accounts.

Official's Response:

See the Corrective Action Plan.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Auglaize County Educational Service Center

Shawn Brown, Superintendent

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1045 Dearbaugh, Suite 2
Wapakoneta, OH 45895

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR PART 200.511(b) FY 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Failure to File GAAP Ohio Rev. Code 117.38 and Ohio Admin Code 117-2-030	No	Reported as Finding 2017-001 We file on a cash basis



Auglaize County Educational Service Center

Shawn Brown, Superintendent

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**CORRECTIVE ACTION PLAN
 2 CFR PART 200.511(c)
 2016-2017**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	Due to the cost of preparing financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statement on a cash-basis is a better way to allocate those funds	N/A	Kristy Weaks, Treasurer
2017-002	Corrections have been made to receipting OT/PT/Speech services in, as services instead of reduction of expenditures	ASAP	Kristy Weaks, Treasurer



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AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER

AUGLAIZE 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
JUNE 5, 2018**