

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
LORAIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

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

**JILL ORSENO, TREASURER**





# Dave Yost • Auditor of State

Governing Board  
Educational Service Center of Lorain County  
1885 Lake Ave  
Elyria, Ohio 44035

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of Lorain County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Educational Service Center of Lorain County is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 17, 2017

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**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
LORAIN COUNTY, OHIO**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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### Independent Auditor's Report

Educational Service Center of Lorain County  
Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

To the Governing Board:

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Center of Lorain County'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 accounting principles generally accepted in the United States of America; this includes 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 of Lorain County'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 of Lorain County's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis, required budgetary comparison schedules* and schedules of net pension liabilities and pension contributions, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Supplementary Information***

Our audit was conducted to opine on the Educational Service Center of Lorain County's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards 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 the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of the Educational Service Center of Lorain County'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 of Lorain County's internal control over financial reporting and compliance.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

UNAUDITED

The discussion and analysis of the Educational Service Center of Lorain County'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, 2016. 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 financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

Key Financial Highlights for 2016 are as follows:

- In total, net position decreased by \$ 250,733.
- Revenues for governmental activities totaled \$ 10,506,999 in 2016, compared to \$ 11,502,038 in 2015. Of the 2016 total revenue, 10.7 percent consisted of general revenues while program revenues accounted for the balance of 89.3 percent.
- Program expenses totaled \$ 10,757,732 for 2016, an increase of \$ 609,268 compared to 2015. In 2016, instructional expenses made up 26.3 percent of program expenses while support services accounted for 72.7 percent and other expenses rounded out the remaining 1.0 percent.

**Using this Annual Financial Report**

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

The *Statement of Net Position* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain 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 non-major funds presented in total in one column. In the case of the Educational Service Center of Lorain County, the general fund by far is the most significant fund.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

UNAUDITED

**Reporting the Service Center as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2016?" The *Statement of Net Position* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net position and changes in that position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the 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.

The *Statement of Net Position* and the *Statement of Activities* are represented by one type of activity, Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, and operation of non-instructional services.

**Reporting the Educational Service Center's Most Significant Funds**

*Fund Financial Statements*

The analysis of the Educational Service Center's major funds begins on page 13. Fund financial reports provide detailed information about the Educational Service 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 major governmental fund is the general fund.

*Governmental Funds*

Most of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term 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 financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

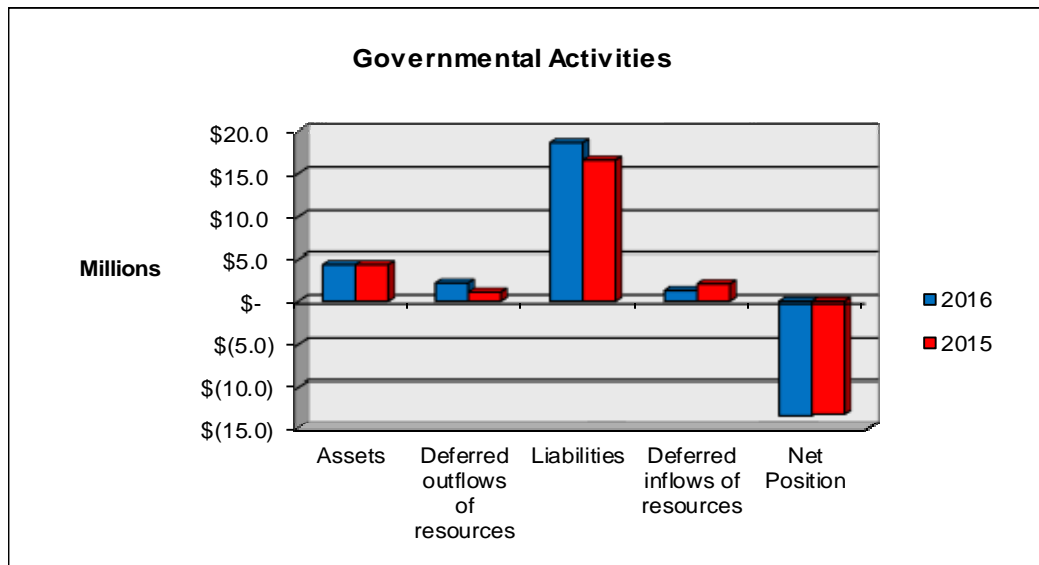
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**The Educational Service Center as a Whole**

You may recall that the *Statement of Net Position* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2016 compared to 2015:

**Table 1**  
Net Position  
Governmental Activities

	2016	2015
<b>Assets</b>		
Current and other assets	\$ 3,581,020	\$ 3,500,043
Capital assets, net	870,816	904,776
<b>Total assets</b>	<u>4,451,836</u>	<u>4,404,819</u>
Deferred outflows of resources - pension	<u>2,200,442</u>	<u>1,136,733</u>
<b>Liabilities</b>		
Current liabilities and other liabilities	1,061,125	1,079,788
Long term liabilities		
Due within one year	174,881	185,165
Due in more than one year	<u>17,512,692</u>	<u>15,349,505</u>
<b>Total liabilities</b>	<u>18,748,698</u>	<u>16,614,458</u>
Deferred inflows of resources - pension	<u>1,349,330</u>	<u>2,122,111</u>
<b>Net position</b>		
Net investment in capital assets	858,017	880,505
Restricted	96,856	118,322
Unrestricted	<u>(14,400,623)</u>	<u>(14,193,844)</u>
<b>Total net position</b>	<u>\$ (13,445,750)</u>	<u>\$ (13,195,017)</u>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

UNAUDITED

Total assets increased by \$ 47,017, with the most significant increase in equity in pooled cash and cash equivalents of \$ 289,234 which was offset by a decrease of \$ 208,257 in due from other governments. Both are the result of the Educational Service Center's effort to collect receivables. Liabilities increased by \$ 2,134,240, with current liabilities decreasing by \$ 18,663 and long term liabilities increasing by \$ 2,152,903.

For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension, as required by GASB 68.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under GASB 68, the net pension liability equals the Educational Service Center's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

UNAUDITED

In order to further understand what makes up the changes in net position for the current year, Table 2 gives readers further details regarding the results of activities for 2016 and 2015.

**Table 2**  
**Changes in Net Position**  
**Governmental Activities**

	<u>2016</u>	<u>2015</u>
Revenues		
Program revenue		
Charges for services and sales	\$ 7,264,840	\$ 8,363,821
Operating grants, interest and contributions	2,121,125	1,842,582
Capital grants and contributions	-	12,000
Total program revenue	<u>9,385,965</u>	<u>10,218,403</u>
General revenue		
Grants and entitlements not restricted for specific purposes	1,014,434	1,151,013
Investment earnings	14,664	11,508
Miscellaneous	91,936	121,114
Total general revenues	<u>1,121,034</u>	<u>1,283,635</u>
Total revenues	<u>10,506,999</u>	<u>11,502,038</u>
Program expenses		
Instruction		
Regular	928,363	1,372,970
Special	1,896,504	1,511,423
Supporting services		
Pupil	1,794,627	1,331,620
Instructional staff	4,376,584	4,396,569
Board of education	30,346	21,526
Administration	682,995	561,223
Fiscal services	395,265	390,447
Business	208,935	207,237
Operation and maintenance	289,556	260,866
Central services	47,749	-
Operation of non-instructional services	89,680	75,206
Extracurricular activities	14,800	15,775
Interest	2,328	3,602
Total program expenses	<u>10,757,732</u>	<u>10,148,464</u>
Change in net position	<u>\$ (250,733)</u>	<u>\$ 1,353,574</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

UNAUDITED

**Governmental Activities**

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The Net Cost of Services 2016 tells the reader what services are self-supporting and those that are supported by unrestricted State entitlements.

**Table 3  
Net Costs of Services**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Governmental activities				
Instruction				
Regular	\$ 928,363	\$ 1,372,970	\$ 30,435	\$ 243,072
Special	1,896,504	1,511,423	39,012	279,692
Supporting services				
Pupil	1,794,627	1,331,620	74,051	208,092
Instructional staff	4,376,584	4,396,569	135,432	841,877
Board of education	30,346	21,526	(30,346)	(21,526)
Administration	682,995	561,223	(669,995)	(541,223)
Fiscal services	395,265	390,447	(395,265)	(390,447)
Business	208,935	207,237	(208,935)	(207,237)
Operation and maintenance	289,556	260,866	(289,556)	(260,866)
Central services	47,749	-	(47,749)	-
Operation of non-instructional services	89,680	75,206	(6,723)	(62,118)
Extracurricular activities	14,800	15,775	200	(15,775)
Interest	2,328	3,602	(2,328)	(3,602)
Totals	<u>\$ 10,757,732</u>	<u>\$ 10,148,464</u>	<u>\$ (1,371,767)</u>	<u>\$ 69,939</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

UNAUDITED

**The Educational Service Center's Funds**

Information regarding the Educational Service Center's major funds can be found starting on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$ 10,516,678 and expenditures and other financing uses totaled \$ 10,398,440. The most significant fund, the General Fund had a fund balance increase of \$ 184,804.

**Capital Assets**

At the end of fiscal year 2016, the Educational Service Center had \$ 870,816 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2016 values compared to 2015.

**Table 4**  
**Capital Assets**  
**(Net of Accumulated Depreciation)**

	2016	2015
Land	\$ 227,600	\$ 227,600
Building and improvements	586,623	610,652
Furniture and equipment	55,123	63,794
Vehicles	1,470	2,730
Total capital assets	<u>\$ 870,816</u>	<u>\$ 904,776</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 9 of the basic financial statements.

**Current Financial Related Activities**

The Educational Service Center is financially sound. The Board and administration closely monitors its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its client's districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

Changes made with HB64 has reduced the state subsidy per pupil amount to the rate of \$ 27 per pupil. This has required the ESC to rely, more than ever before, on district invoicing for services provided. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers and 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 it receives. If you have any questions about this report or need additional financial information contact Ms. Jill Orseno, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035 or calling 440-324-5777 ext. 1125.

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 2,884,957
Due from other governments	696,063
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	643,216
Total assets	<u>4,451,836</u>
<b>Deferred outflow s of resources</b>	
Pension	2,200,442
Total deferred outflow s of resources	<u>2,200,442</u>
<b>Liabilities</b>	
Accounts and contracts payable	50,052
Accrued salaries, w ages and benefits	869,496
Due to other governments	141,577
Long term liabilities	
Due w ithin one year	174,881
Due in more than one year	
Other amounts due in more than one year	611,054
Net pension liability	16,901,638
Total liabilities	<u>18,748,698</u>
<b>Deferred inflow of resources</b>	
Pension	1,349,330
Total deferred inflow s of resources	<u>1,349,330</u>
<b>Net position</b>	
Net investment in capital assets	858,017
Restricted for	
Federal and state grants	15,873
Other purposes	80,983
Unrestricted	(14,400,623)
Total net position	<u>\$ (13,445,750)</u>

See the accompanying Notes to the Basic Financial Statements.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants Interest and Contributions	Revenue and Changes in Net Position
Governmental activities				
Instruction				
Regular	\$ 928,363	\$ 881,628	\$ 77,170	\$ 30,435
Special	1,896,504	1,599,170	336,346	39,012
Supporting services				
Pupil	1,794,627	1,861,178	7,500	74,051
Instructional staff	4,376,584	2,911,907	1,600,109	135,432
Board of education	30,346	-	-	(30,346)
Administration	682,995	-	13,000	(669,995)
Fiscal services	395,265	-	-	(395,265)
Business	208,935	-	-	(208,935)
Operation and maintenance	289,556	-	-	(289,556)
Central services	47,749	-	-	(47,749)
Operation of non-instructional services	89,680	10,957	72,000	(6,723)
Extracurricular activities	14,800	-	15,000	200
Interest	2,328	-	-	(2,328)
Totals	<u>\$ 10,757,732</u>	<u>\$ 7,264,840</u>	<u>\$ 2,121,125</u>	<u>(1,371,767)</u>

General revenues

Grants and entitlements not restricted to specific purposes	1,014,434
Investment earnings	14,664
Miscellaneous	91,936
Total general revenues	<u>1,121,034</u>

Change in net position	(250,733)
Net position at beginning of year	(13,195,017)
Net position at end of year	<u>\$ (13,445,750)</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in pooled cash and cash equivalents	\$ 2,673,424	\$ 64,126	\$ 147,407	\$ 2,884,957
Due from other governments	491,972	145,016	59,075	696,063
Interfund receivable	202,389	-	-	202,389
<b>Total assets</b>	<b><u>\$ 3,367,785</u></b>	<b><u>\$ 209,142</u></b>	<b><u>\$ 206,482</u></b>	<b><u>\$ 3,783,409</u></b>
<b>Liabilities</b>				
Accounts and contracts payable	\$ 21,737	\$ 19,110	\$ 9,205	\$ 50,052
Accrued wages and benefits	821,499	18,197	29,800	869,496
Due to other governments	133,678	2,509	5,390	141,577
Interfund payable	-	119,280	83,109	202,389
Compensated absences payable	7,443	-	-	7,443
<b>Total liabilities</b>	<b><u>984,357</u></b>	<b><u>159,096</u></b>	<b><u>127,504</u></b>	<b><u>1,270,957</u></b>
<b>Fund balances</b>				
Restricted	-	50,046	109,529	159,575
Assigned	570,513	-	-	570,513
Unassigned (deficit)	1,812,915	-	(30,551)	1,782,364
<b>Total fund balances</b>	<b><u>2,383,428</u></b>	<b><u>50,046</u></b>	<b><u>78,978</u></b>	<b><u>2,512,452</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 3,367,785</u></b>	<b><u>\$ 209,142</u></b>	<b><u>\$ 206,482</u></b>	<b><u>\$ 3,783,409</u></b>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2016

Amount reported for governmental activities in the statement of net position are different because:

Total governmental funds balances		\$	2,512,452
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			870,816
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Compensated absences	(765,693)		
Capital lease payable	(12,799)		
			(778,492)
Net pension liability is not due and payable in the current period and therefore the liability and related deferred outflow s/inflow s of resources are not reported in the governmental funds:			
Deferred outflow of resources - pension	2,200,442		
Net pension liability	(16,901,638)		
Deferred inflow of resources - pension	(1,349,330)		
			(16,050,526)
Net position of governmental activities			\$ (13,445,750)

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	IDEA Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Tuition and fees	\$ 5,221,729	\$ -	\$ -	\$ 5,221,729
Interest	14,664	-	-	14,664
Intergovernmental	1,111,292	1,169,693	854,574	3,135,559
Charges for services	2,043,115	-	-	2,043,115
Other	8,632	-	83,300	91,932
<b>Total revenues</b>	<b>8,399,432</b>	<b>1,169,693</b>	<b>937,874</b>	<b>10,506,999</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Instruction</b>				
Regular	823,841	-	81,286	905,127
Special	1,472,564	29,410	331,477	1,833,451
<b>Supporting services</b>				
Pupil	1,690,067	-	7,686	1,697,753
Instructional staff	2,722,920	1,108,682	445,453	4,277,055
Board of education	30,037	-	-	30,037
Administration	604,760	-	37,725	642,485
Fiscal services	321,727	48,400	5,896	376,023
Business	199,985	-	-	199,985
Operation and maintenance	312,256	-	-	312,256
Operation of non-instructional	12,696	-	72,559	85,255
Extracurricular activities	-	-	14,800	14,800
Capital outlay	734	-	-	734
<b>Debt service</b>				
Principal	11,472	-	-	11,472
Interest	2,328	-	-	2,328
<b>Total expenditures</b>	<b>8,205,387</b>	<b>1,186,492</b>	<b>996,882</b>	<b>10,388,761</b>
<b>Excess(deficiency) of revenues over expenditures</b>	<b>194,045</b>	<b>(16,799)</b>	<b>(59,008)</b>	<b>118,238</b>
<b>Other financing sources (uses)</b>				
Transfers-in	219	-	9,460	9,679
Transfers-out	(9,460)	-	(219)	(9,679)
<b>Total other financing sources (uses)</b>	<b>(9,241)</b>	<b>-</b>	<b>9,241</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>184,804</b>	<b>(16,799)</b>	<b>(49,767)</b>	<b>118,238</b>
Fund balances, beginning of year	2,198,624	66,845	128,745	2,394,214
Fund balances, end of year	<b>\$ 2,383,428</b>	<b>\$ 50,046</b>	<b>\$ 78,978</b>	<b>\$ 2,512,452</b>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balance - total governmental funds	\$	118,238
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital outlay	2,976	
Depreciation expense	<u>(36,936)</u>	(33,960)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.		
		956,528
Except for amounts reported as deferred outflows/inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,380,855)
The issuance of debt (capital lease proceeds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
		11,472
Some expenses (compensated absences) reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		<u>77,844</u>
Change in net position of governmental activities	<u>\$</u>	<u>(250,733)</u>

See the accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS

JUNE 30, 2016

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 39,869
Cash and cash equivalents in segregated accounts	<u>13,016,673</u>
Total assets	<u><u>\$ 13,056,542</u></u>
Liabilities	
Due to others	<u>\$ 13,056,542</u>
Total liabilities	<u><u>\$ 13,056,542</u></u>

See the accompanying Notes to the Basic Financial Statements.

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

On June 13, 1914, the Educational Service Center of Lorain County (the Educational Service Center) was formed. The Educational Service Center supplies supervisory, administrative, fiscal, and other needed services to school districts and other agencies in the greater Lorain County area.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 40,738 students in local, city and exempted village school districts in Lorain County.

REPORTING ENTITY

For financial reporting purposes, the reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

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 if 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. The Educational Service Center has no component units.

The Educational Service Center is associated with certain organizations which are defined as a jointly governed organization. These organizations are presented in Note 8 to the basic financial statements. These organizations are Connect and Lake Erie Regional Council of Governments (LERC).

B. BASIS OF PRESENTATION

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United State of America (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Explanation of the Educational Service Center's more significant policies follow.

The Educational Service Center's basic financial statements consist of government-wide 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.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

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 financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

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 statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. FUND ACCOUNTING

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets and deferred outflows of resources are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities and deferred inflows of resources are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows of resources, liabilities and deferred inflows of resources is reported as fund balance. The following is the Educational Service Center's major governmental funds:

General Fund - The General Fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

IDEA Fund - The IDEA Fund is used to account for federal special education grants restricted for a particular purpose

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Fund Type

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

D. MEASUREMENT FOCUS

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, all liabilities and deferred inflows of resources associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

E. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources includes pension and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. For 2016, the Educational Service Center did not have any unavailable revenue. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 18)

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2016, investments were limited to certificates of deposit, STAR Ohio (State Treasurer's Investment Pool), treasury notes, and federal agency securities. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center invested funds in STAR Ohio during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2016.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2016, the General Fund received \$ 14,664 in interest income of which \$ 926 was assigned from other funds.

The Educational Service Center is fiscal agent for LERC. The Educational Service Center has segregated LERC's funds into separate bank accounts for individual investment accounts held separate from the Educational Service Center's central bank account. These interest bearing depository accounts are presented on the statement of fiduciary assets and liabilities as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the Educational Service Center's treasury.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At June 30, 2016, the Educational Service Center did not have any prepaids.

H. CAPITAL ASSETS

The Educational Service Center's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center's capitalization threshold is \$ 2,400. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Estimated Useful Life</u>
Land improvements	5 years
Buildings and Building Improvements	5 - 30 years
Furniture and equipment	5 - 10 years

I. INTERFUND BALANCES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net position.

J. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Compensated Absences Payable" in the funds from which the employees will be paid.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

L. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

N. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net position reports \$ 96,856 as restricted, none of which is restricted by enabling legislation.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. 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 the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category 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" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Educational Service Center has no committed fund balances.

Assigned - Amounts in the assigned fund balance 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. In the general fund, assigned amounts represent intended uses established by the Governing Board.

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

The Educational Service Center applies restricted resources first when expenditures are 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 could be used.

P. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2016.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

A. ACCOUNTING PRINCIPLES

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

GASB Statement No. 72, "Fair Value Measurement and Application" The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both active employees and inactive employees—are provided with pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended. It also clarifies the application of certain provisions of GASB Statement Nos. 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants," establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized costs for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statement of the Educational Service Center.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 3 - DEFICIT FUND BALANCE

At June 30, 2016, the following non-major fund had a deficit fund balances; the Public Preschool Fund of \$ 14,578, the OTES State Trainer Fund of \$ 4,762 and the Miscellaneous State Grant Fund of \$ 11,211. The General Fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 – FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General Fund	IDEA Fund	Other Governmental Funds	Total
Restricted for				
Other grants	\$ -	\$ -	\$ 80,983	\$ 80,983
Miscellaneous Federal Grants	-	-	5,452	5,452
TeachOhio	-	-	14,366	14,366
IDEA	-	50,046	-	50,046
Title I	-	-	8,728	8,728
Total restricted	<u>-</u>	<u>50,046</u>	<u>109,529</u>	<u>159,575</u>
Assigned for				
Subsequent year appropriations	437,045	-	-	437,045
Early learning center	13,391	-	-	13,391
Other purpose	120,077	-	-	120,077
Total assigned	<u>570,513</u>	<u>-</u>	<u>-</u>	<u>570,513</u>
Unassigned (deficit)	1,812,915	-	(30,551)	1,782,364
Total all fund balances	<u>\$ 2,383,428</u>	<u>\$ 50,046</u>	<u>\$ 78,978</u>	<u>\$ 2,512,452</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statutes classify monies held by the Educational Service Center into three categories:

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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. Payment for investments may be made upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

B. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. The Educational Service Center does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$ 8,970,924 and the bank balance was \$ 9,192,737. Of the bank balance, \$ 4,786,026 was covered by federal depository insurance and \$ 4,406,711 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center does not have an investment policy for custodial credit risk. As of June 30, 2016, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	1 Year or less	2 Years	3 Years	4 Years	5 Years
StarOhio	\$ 1,276,406	\$ 1,276,406	\$ -	\$ -	\$ -	\$ -
US Treasury	199,764	84,980	114,784	-	-	-
FHLB	1,605,180	300,180	1,305,000	-	-	-
FHLMC	1,294,555	50,124	754,514	154,987	49,971	284,959
FNMA	1,072,672	39,772	652,908	74,992	255,000	50,000
FFCB	1,000,078	800,078	200,000	-	-	-
Money Market	14,093	14,093	-	-	-	-
Agency Discount Note	507,827	507,827	-	-	-	-
	<u>\$ 6,970,575</u>	<u>\$ 3,073,460</u>	<u>\$ 3,027,206</u>	<u>\$ 229,979</u>	<u>\$ 304,971</u>	<u>\$ 334,959</u>

The Educational Service Center categorizes its fair value measurements with the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The above table identifies the recurring fair value measurements as of June 30, 2016.

D. INTEREST RATE RISK

As a means of limiting its exposure to fair value losses from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment maturities to five years or less.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

The Educational Service Center follows the Ohio Revised Code that limits its investment choices. The Educational Service Center has no investment policy that would further limit its investment choices. The Educational Service Center's investments, except for STAR Ohio, were rated AAA and Aaa/AA+ by Standard & Poor's or Moody's Investor Services. Standard & Poor's has assigned STAR Ohio a rating of AAAm.

F. CONCENTRATION OF CREDIT RISK

The Educational Service Center's places no limit on the amount that may be invested to any one issuer. The following table includes the percentage of total of each investment type held by the Educational Service Center at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
StarOhio	\$ 1,276,406	18.31%
US Treasury	199,764	2.87%
FHLB	1,605,180	23.02%
FHLMC	1,294,555	18.57%
FNMA	1,072,672	15.39%
FFCB	1,000,078	14.35%
Money Market	14,093	0.20%
Agency Discount Notes	507,827	7.29%
	<u>\$ 6,970,575</u>	<u>100.00%</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Major funds	
General fund	\$ 491,972
IDEA	145,016
Non-major funds	
Alternative education	208
Miscellaneous state grants	8,593
Title I	22,731
Preschool disabilities	7,667
Miscellaneous federal grants	14,734
Title VI R	4,196
Limited english proficiency	946
Total due from other governments	<u>\$ 696,063</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 7 - STATE FUNDING

The Educational Service Center receives about 11% of its funding from the Ohio Department of Education. The state provides a subsidy in a per pupil amount at the rate of \$ 27 per pupil. In addition, the Educational Service Center receives \$ 6.50 per pupil as a local deduction from districts aligned with the Educational Service Center.

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS

A. CONNECT

The North Coast Council became known as Connect effective April 1, 2016. The new governing Board of Directors, the Educational Service Centers of Cuyahoga, Lorain and Medina County and the Ohio Schools Council, have accepted the ownership, responsibility and liability of Connect in order to provide exemplary service to member districts. The Superintendent/Executive Director of the three ESCs and Ohio Schools Council shall serve on Connect's Board of Directors. The purpose of Connect is applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions for member districts. Fiscal information for Connect is available from the Treasurer of the Educational Service Center of Cuyahoga County (fiscal agent), located at 6393 Oak Tree Boulevard, Independence, Ohio 44131. In fiscal year 2016, the Educational Service Center paid \$ 17,895 to Connect.

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of ten school districts. The jointly governed organization currently exist for the purpose of health insurance for its participating districts and the Educational Service Center. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. LERC is governed by a board of directors which consists of a superintendent, treasurer or designated representative from each participating school district and the Educational Service Center. The degree of control exercised by any participating school district and the Educational Service Center is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County at 1885 Lake Avenue, Elyria, Ohio.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 9 - CAPITAL ASSETS

Capital asset activity during fiscal year 2016 is as follows:

Governmental Activities	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Nondepreciable capital assets				
Land	\$ 227,600	\$ -	\$ -	\$ 227,600
Depreciable capital assets				
Buildings and improvements	1,132,792	-	-	1,132,792
Furniture, fixtures and equipment	725,793	2,976	(72,738)	656,031
Vehicles	28,063	-	(21,763)	6,300
Total capital assets being depreciated	<u>1,886,648</u>	<u>2,976</u>	<u>(94,501)</u>	<u>1,795,123</u>
Less accumulated depreciation				
Buildings and improvements	(522,140)	(24,029)	-	(546,169)
Furniture, fixtures and equipment	(661,999)	(11,647)	72,738	(600,908)
Vehicles	(25,333)	(1,260)	21,763	(4,830)
Total accumulated depreciation	<u>(1,209,472)</u>	<u>(36,936)</u>	<u>94,501</u>	<u>(1,151,907)</u>
Depreciable capital assets, net of accumulated depreciation	<u>677,176</u>	<u>(33,960)</u>	<u>-</u>	<u>643,216</u>
Governmental activities capital assets, net	<u>\$ 904,776</u>	<u>\$ (33,960)</u>	<u>\$ -</u>	<u>\$ 870,816</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 690
Special	361
Supporting services	
Pupils	159
Instructional staff	9,864
Administration	1,260
Business	6,307
Operations and maintenance	18,295
Total depreciation expense	<u>\$ 36,936</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 10 - 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. The Educational Service Center contracted with Liberty Mutual Insurance Company for general liability insurance. Owned vehicles are covered by Liberty Mutual and have a \$ 250 deductible for comprehensive and a \$ 250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$ 1,000,000 combined single limit. Claims have never exceeded this coverage in any of the past three years. There has been no significant reduction in coverage from the prior year. Professional liability is protected by Liberty Mutual with a \$ 1,000,000 annual aggregate/\$ 1,000,000 single occurrence limit and a \$ 5,000 deductible.

For fiscal year 2016, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The members apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

NOTE 11 - EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to 30 days of vacation per year, depending upon length of service. Accumulated unused vacation (to a maximum of 40 days) is paid to employees upon termination of employment. Not all employees earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 120 days, and one-third of accumulated sick leave beyond 120 days, to a maximum accumulation of 210 days. Maximum payment may not exceed 60 days.

B. LIFE INSURANCE

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust in an amount equal to one half times the employee's salary rounded to the nearest \$ 500.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 12 – CAPITAL LEASES

The District has entered into two lease agreements as lessee for financing office equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

	Cost	Depreciation	Net
Office equipment	\$ 41,268	\$ 12,283	\$ 28,985

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

	Year ending June 30,	Equipment
	2017	\$ 12,115
	2018	1,626
Total minimum lease payments		<u>13,741</u>
Less amount representing interest		942
Net present value of minimum lease payments		<u>\$ 12,799</u>

NOTE 13 - OPERATING LEASE

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2016, expenditures for the operating lease totaled \$ 6,516.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016.

Year ending June 30,	Amount
2017	\$ 6,516
2018	6,516
2019	6,516
2020	5,430
	<u>\$ 24,978</u>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during fiscal year 2016 are as follows:

	Balance June 30, 2015	Increase	Decrease	Balance June 30, 2016	Amounts Due In One Year
Net pension liability:					
STRS	\$ 12,175,332	\$ 2,009,936	\$ -	\$ 14,185,268	\$ -
SERS	2,465,489	250,881	-	2,716,370	-
Total net pension liability	<u>14,640,821</u>	<u>2,260,817</u>	<u>-</u>	<u>16,901,638</u>	<u>-</u>
Capital lease	24,271	-	11,472	12,799	11,199
Compensated absences	869,578	272,823	369,265	773,136	163,682
	<u>\$ 15,534,670</u>	<u>\$ 2,533,640</u>	<u>\$ 380,737</u>	<u>\$ 17,687,573</u>	<u>\$ 174,881</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their services. Capital leases will be paid from the General Fund.

NOTE 15 - CONTINGENCIES

A. GRANTS

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2016.

B. LITIGATION

The Educational Service Center is not a part of or involved in any legal proceedings at this time.

NOTE 16 - TRANSFERS

During the year ended June 30, 2016, the General Fund transferred \$ 9,460 to the State Grants Fund and the Public School Preschool transferred \$ 219 to the General Fund.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 17 - INTERFUND ACTIVITIES

The interfund payables are advances for grant monies that were not received by fiscal year end. The Educational Service Center expects to receive the grant monies within the next fiscal year, at which time the advances will be repaid.

Interfund balances at June 30, 2016, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 202,389	\$ -
IDEA	-	119,280
Non-major Funds:		
Alternative education	-	783
Miscellaneous state grants	-	16,804
Public school preschool	-	4,808
LEP	-	946
Title VIR	-	8,958
ECSE preschool	-	6,290
Miscellaneous federal grants	-	44,520
Total Non-major Funds	<u>-</u>	<u>83,109</u>
	<u>\$ 202,389</u>	<u>\$ 202,389</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLAN

A. NET PENSION LIABILITY

The net pension liability reported on the statement of net position represents a liability to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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.

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.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in Due to other governments on both the accrual and modified accrual bases of accounting.

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

Plan Description – 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](http://www.ohsers.org) under Employers/Audit Resources.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLAN (continued)

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$ 213,089 for fiscal year 2016 which was 100 percent paid.

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 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 fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$ 743,439 for fiscal year 2016 which was 100 percent paid.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,716,370	\$ 14,185,268	\$ 16,901,638
Proportion of the net pension liability	0.047605%	0.051327%	
Pension expense	\$ 285,325	\$ 1,095,530	\$ 1,380,855

At June 30, 2016, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 44,946	\$ 644,436	\$ 689,382
Net difference between projected and actual earnings on pension plan investments	203,269	-	203,269
Educational Service Center contributions subsequent to the measurement date	213,089	743,439	956,528
Difference between employer contributions and proportionate share of contributions	46,986	304,277	351,263
Total deferred outflows of resources	<u>\$ 508,290</u>	<u>\$ 1,692,152</u>	<u>\$ 2,200,442</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 320,125	\$ 977,291	\$ 1,297,416
Change in proportionate share	51,914	-	\$ 51,914
Total deferred inflows of resources	<u>\$ 372,039</u>	<u>\$ 977,291</u>	<u>\$ 1,349,330</u>

\$ 956,528 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$ (34,254)	\$ (142,051)	\$ (176,305)
2018	(34,254)	(142,051)	(176,305)
2019	(53,204)	(142,050)	(195,254)
2020	44,874	397,574	442,448
	<u>\$ (76,838)</u>	<u>\$ (28,578)</u>	<u>\$ (105,416)</u>

E. ACTUARIAL ASSUMPTIONS - SERS

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

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

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

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

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment rate of return	7.75 percent of net of investments expense, including inflation
Actuarial cost method	Early age normal

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS (continued)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	1.00%	0.00%
U.S. stocks	22.50%	5.00%
Non-U.S. stocks	22.50%	5.50%
Fixed income	19.00%	1.50%
Private equity	10.00%	10.00%
Real assets	10.00%	5.00%
Multi-asset strategies	15.00%	7.50%
	<u>100.00%</u>	

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

Sensitivity of the 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 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Educational Service Center's proportionate share of the net pension liability	<u>\$ 3,766,630</u>	<u>\$ 2,716,370</u>	<u>\$ 1,831,966</u>



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)

F. ACTUARIAL ASSUMPTIONS - STRS

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	31.00%	8.00%
International equity	26.00%	7.85%
Alternatives	14.00%	8.00%
Fixed income	18.00%	3.75%
Real estate	10.00%	6.75%
Liquidity reserves	1.00%	3.00%
	<u>100.00%</u>	

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)

F. ACTUARIAL ASSUMPTIONS – STRS (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	\$ 19,704,407	\$ 14,185,268	\$ 9,518,012

NOTE 19 - POST EMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEE 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](http://www.ohsers.org) under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$ 23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Educational Service Center's surcharge obligation was \$ 21,581.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 19 - POST EMPLOYMENT BENEFITS (continued)

A. SCHOOL EMPLOYEE RETIREMENT SYSTEM (continued)

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$ 0, \$11,707 and \$ 2,278, respectively; 100 percent has been contributed for 2016, 2015, and 2014.

B. STATE TEACHERS RETIREMENT SYSTEM

Plan Description

State Teachers Retirement System of Ohio (STRS Ohio) administers a pension plan that is comprised of a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Charter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2014. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The Educational Service Center's contributions for post-employment health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$ 0, \$ 0, and \$ 51,480, respectively; 100 percent has been contributed for 2016, 2015, and 2014.

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**REQUIRED SUPPLEMENTARY INFORMATION**

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST THREE FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Educational Service Center's proportion of the net pension liability	0.047605%	0.048716%	0.048716%
Educational Service Center's proportionate share of the net pension liability	\$ 2,716,370	\$ 2,465,489	\$ 2,896,984
Educational Service Center's covered-employee payroll	\$ 1,427,668	\$ 1,423,853	\$ 1,483,302
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	190.27%	173.16%	195.31%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST THREE FISCAL YEARS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Educational Service Center's proportion of the net pension liability	0.051327%	0.050056%	0.050056%
Educational Service Center's proportionate share of the net pension liability	\$ 14,185,268	\$ 12,175,332	\$ 14,503,176
Educational Service Center's covered-employee payroll	\$ 5,405,349	\$ 5,148,008	\$ 5,240,139
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	262.43%	236.51%	276.77%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS – SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 213,089	\$ 188,167	\$ 197,346	\$ 205,289
Contributions in relation to the contractually required contribution	<u>(213,089)</u>	<u>(188,167)</u>	<u>(197,346)</u>	<u>(205,289)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center covered- employee payroll	\$ 1,522,064	\$ 1,427,668	\$ 1,423,853	\$ 1,483,302
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 332,445	\$ 347,085	\$ 376,501	\$ 254,649	\$ 255,228	\$ 258,239
<u>(332,445)</u>	<u>(347,085)</u>	<u>(376,501)</u>	<u>(254,649)</u>	<u>(255,228)</u>	<u>(258,239)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,471,707	\$ 2,761,218	\$ 2,780,660	\$ 2,587,894	\$ 2,599,064	\$ 2,417,971
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS – STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	2016	2015	2014	2013
Contractually required contribution	\$ 743,439	\$ 756,749	\$ 669,241	\$ 681,218
Contributions in relation to the contractually required contribution	<u>(743,439)</u>	<u>(756,749)</u>	<u>(669,241)</u>	<u>(681,218)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center covered-employee payroll	\$ 5,310,278	\$ 5,405,349	\$ 5,148,008	\$ 5,240,139
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

2012	2011	2010	2009	2008	2007
<u>\$ 668,137</u>	<u>\$ 680,765</u>	<u>\$ 661,970</u>	<u>\$ 637,999</u>	<u>\$ 571,946</u>	<u>\$ 553,509</u>
<u>(668,137)</u>	<u>(680,765)</u>	<u>(661,970)</u>	<u>(637,999)</u>	<u>(571,946)</u>	<u>(553,509)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,139,518	\$ 5,236,657	\$ 5,092,079	\$ 4,907,681	\$ 4,399,586	\$ 4,257,761
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND AND IDEA FUND

FOR THE YEAR ENDED JUNE 30, 2016

GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and other financing sources	\$ 8,804,283	\$ 8,391,779	\$ 8,391,779	\$ -
Expenditures and other financing uses	9,137,208	8,262,724	8,262,723	1
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(332,925)	129,055	129,056	1
Fund balance, beginning of year	2,254,811	2,254,811	2,254,811	-
Prior year encumbrances	114,676	114,676	114,676	-
Fund balance, end of year	\$ 2,036,562	\$ 2,498,542	\$ 2,498,543	\$ 1

IDEA FUND

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues and other financing sources	\$ 1,146,165	\$ 1,238,360	\$ 1,238,900	\$ 540
Expenditures and other financing uses	1,146,165	1,246,265	1,246,264	1
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	(7,905)	(7,364)	541
Fund balances, beginning of year	(48,943)	(48,943)	(48,943)	-
Prior year encumbrances	56,307	56,307	56,307	-
Fund balances, end of year	\$ 7,364	\$ (541)	\$ -	\$ 541

See the accompanying Notes to the Supplementary Information.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - BUDGETARY DATA

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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 plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within funds.

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget Basis (Non-GAAP) and Actual presented for the General Fund and the IDEA Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures rather than restricted, committed or assigned fund balance (GAAP basis).
4. Some funds are included in the General Fund (GAAP basis), but have a separate legally adopted budget (budget basis).

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance		
	General Fund	IDEA Fund
Budget basis	\$ 129,056	\$ (7,364)
Adjustments, increase (decrease)		
Revenue accruals	(381,044)	(69,207)
Expenditure accruals	349,181	(4,353)
Encumbrances	78,244	64,125
Funds budgeted separately	9,367	-
GAAP basis, as reported	\$ 184,804	\$ (16,799)

## **SUPPLEMENTARY INFORMATION**

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>			
Title I Grants to Local Educational Agencies	84.010	2015	\$ 86,315
Title I Grants to Local Educational Agencies	84.010	2016	128,054
<b>Total Title I Grants to Local Educational Agencies</b>			<u>214,369</u>
(C) Special Education_Grants to States	84.027	2015	119,024
(C) Special Education_Grants to States	84.027	2016	1,031,031
(C) Special Education_Grants to States - OMNIE Grant	84.027	2016	30,615
<b>Total Special Education_Grants to States</b>			<u>1,180,670</u>
(C) Special Education_Preschool Grants	84.173	2015	1,232
(C) Special Education_Preschool Grants	84.173	2016	33,722
(C) Special Education_Preschool Grants - OMNIE Grant	84.173	2015	970
(C) Special Education_Preschool Grants - OMNIE Grant	84.173	2016	44,735
<b>Total Special Education_Preschool Grants</b>			<u>80,659</u>
<b>Total Special Education Cluster</b>			<u>1,261,329</u>
Education for Homeless Children and Youth	84.196	2015	12,016
Education for Homeless Children and Youth	84.196	2016	80,207
<b>Total Education for Homeless Children and Youth</b>			<u>92,223</u>
Improving Teacher Quality State Grants	84.367	2015	847
Improving Teacher Quality State Grants	84.367	2016	8,958
<b>Total Improving Teacher Quality State Grants</b>			<u>9,805</u>
Race to the Top (Teach Ohio) - 3rd Grade Reading	84.395	2015	9,305
Special Education - State Personnel Developing Grant	84.323	2015	7,776
Special Education - State Personnel Developing Grant	84.323	2016	44,915
<b>Total Special Education - State Personnel Developing Grant</b>			<u>52,691</u>
English Language Acquisition State Grants	84.365	2016	23,467
Early Learning Challenge - Race to the Top	84.412	2015	1,752
Early Learning Challenge - Race to the Top	84.412	2016	11,910
<b>Total Early Learning Challenge - Race to the Top</b>			<u>13,662</u>
<b>Total U.S. Department of Education</b>			<u>1,676,851</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 1,676,851</u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

- (A) OAKS did not assign pass-through numbers for fiscal year 2016.
- (B) This schedule includes the federal activity of the Educational Service Center of Lorain County under programs of the federal government for the fiscal year ended June 30, 2016 and is prepared in accordance with the cash basis of accounting. This 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 of Lorain County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Educational Service Center of Lorain County.
- (C) Included as part of "Special Education Grant Cluster" when determining major programs.
- (D) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The Educational Service Center has elected not to use the 10% de minimis indirect cost rate.





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**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Required by *Government Auditing Standards***

Educational Service Center of Lorain County  
Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Center of Lorain County's basic financial statements and have issued our report thereon dated November 17, 2016.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Educational Service Center of Lorain County'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 of Lorain County'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 of Lorain County's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Governing Board  
Educational Service Center of Lorain County

***Compliance and Other Matters***

As part of reasonably assuring whether the Educational Service Center of Lorain County'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 of Lorain County'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 of Lorain County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
November 17, 2016



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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**

Education Service Center of Lorain County  
Lorain County  
1885 Lake Avenue  
Elyria, Ohio 44035

To the Governing Board:

***Report on Compliance for the Major Federal Program***

We have audited the Educational Service Center of Lorain County's 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 Educational Service Center of Lorain County's major federal program for the fiscal year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center of Lorain County's major federal program.

***Management's Responsibility***

The Educational Service Center of Lorain County'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 of Lorain County's compliance for the Educational Service Center of Lorain County'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 of Lorain County'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 of Lorain County's major program. However, our audit does not provide a legal determination of the Educational Service Center of Lorain County's compliance.

Governing Board  
Educational Service Center of Lorain County

***Opinion on the Major Federal Program***

In our opinion, the Educational Service Center of Lorain County complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2016.

***Report on Internal Control Over Compliance***

The Educational Service Center of Lorain County'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 of Lorain County'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 of Lorain County'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.



Julian & Grube, Inc.  
November 17, 2016

**EDUCATIONAL SERVICE CENTER OF LORIAN COUNTY  
LORAIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Cluster
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

LORAIN 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  
JANUARY 31, 2017