

***MAHONING COUNTY EDUCATIONAL
SERVICE CENTER***

MAHONING COUNTY, OHIO

AUDIT REPORT

For the Fiscal Year Ended June 30, 2016





Dave Yost • Auditor of State

Board of Education
Mahoning County Educational Service Center
7320 North Palmyra Road
Canfield, Ohio 44406

We have reviewed the *Independent Auditor's Report* of the Mahoning County Educational Service Center, Mahoning County, prepared by Charles E. Harris & Associates, 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 Mahoning County Educational Service Center is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

March 14, 2017

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MAHONING COUNTY
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INDEPENDENT AUDITOR'S REPORT

Mahoning County Educational Service Center
Mahoning County
7320 North Palmyra Road
Canfield, Ohio 44406

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 Mahoning County Educational Service Center, Mahoning County, Ohio (the ESC), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the ESC'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 ESC'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 ESC'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 opinion.

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 Mahoning County Educational Service Center, Mahoning County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the 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*, 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 ESC's basic financial statements taken as a whole. The budgetary comparison schedule presents additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016, on our consideration of the ESC'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 ESC's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 23, 2016

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position of governmental activities increased \$1,461,814 which represents a 3.99% increase from 2015.
- General revenues accounted for \$1,189,265 in revenue or 3.88% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$29,439,115 or 96.12% of total revenues of \$30,628,380.
- The ESC had \$29,166,566 in expenses related to governmental activities; these expenses were offset by \$29,439,115 in program specific charges for services and sales, grants or contributions and general revenues (primarily unrestricted grants and entitlements) of \$1,189,265.
- The ESC's major governmental funds are the general fund and Straight A Grant fund. The general fund had \$24,359,229 in revenues and \$24,515,003 in expenditures and other financing uses. During fiscal year 2016, the general fund's fund balance decreased from \$197,054 to \$41,280.
- The Straight A Grant fund had revenues of \$237,084 and expenditures of \$429,928. During fiscal year 2016, the Straight A Grant fund's fund balance decreased from \$0 to \$(192,844).

Using these Basic Financial Statements

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

The *statement of net position* and *statement of activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund and the Straight A Grant fund are the only governmental funds reported as major funds.

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

In the statement of net position and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

The government-wide financial statements include not only the activity of the ESC itself (known as the primary government), but also a separate community school for which the ESC is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government.

The ESC's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 11. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and the Straight A Grant fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC'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 basic financial statements. The basic governmental fund financial statements can be found on pages 17-20 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 21. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-51 of this report.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the ESC's net pension liability. The required supplementary information can be found on pages 58 through 64 of this report.

The ESC as a Whole

Recall that the statement of net position provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Assets</u>		
Current and other assets	\$ 7,112,731	\$ 6,201,114
Capital assets, net	<u>119,607</u>	<u>115,163</u>
Total assets	<u>7,232,338</u>	<u>6,316,277</u>
<u>Deferred outflows of resources</u>		
Pensions	<u>3,969,667</u>	<u>2,566,739</u>
Total deferred outflows of resources	<u>3,969,667</u>	<u>2,566,739</u>
<u>Liabilities</u>		
Current liabilities	3,130,205	2,959,444
Long-term liabilities:		
Due within one year	165,962	278,350
Due in more than one year:		
Net pension liability	39,266,661	35,463,040
Other amounts	<u>518,088</u>	<u>484,996</u>
Long-term liabilities	<u>39,950,711</u>	<u>36,226,386</u>
Total liabilities	<u>43,080,916</u>	<u>39,185,830</u>
<u>Deferred inflows of resources</u>		
Pensions	<u>3,334,401</u>	<u>6,372,312</u>
Total deferred inflows of resources	<u>3,334,401</u>	<u>6,372,312</u>
<u>Net position</u>		
Net investment in capital assets	106,458	93,472
Restricted	1,660,959	812,919
Unrestricted (deficit)	<u>(36,980,729)</u>	<u>(37,581,517)</u>
Total net position (deficit)	<u>\$ (35,213,312)</u>	<u>\$ (36,675,126)</u>

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

In 2015, the ESC adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District'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.

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 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. 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 the new standards required by GASB 68, the net pension liability equals the ESC'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 ESC 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.

In accordance with GASB 68, the ESC's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the ESC is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

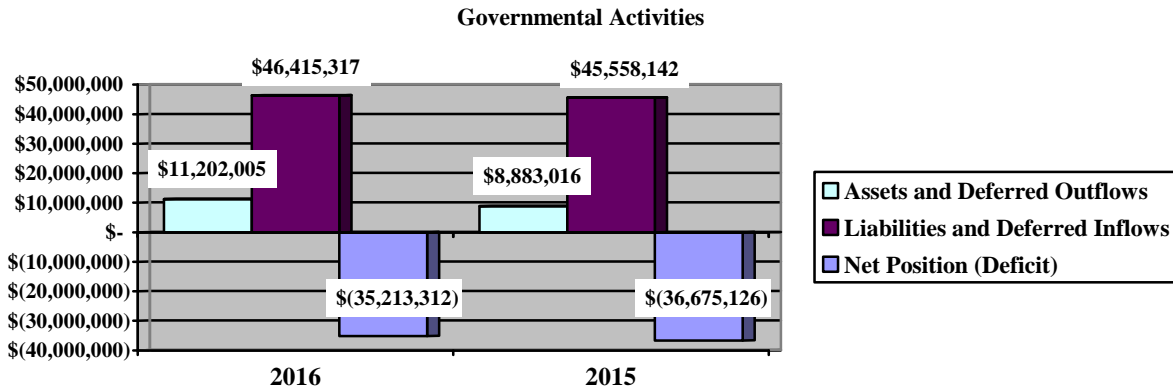
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the ESC's liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by \$35,213,312.

Overall, both assets and liabilities for the ESC increased. The increase in assets is related to an increase in receivables (grants and billings for user-charged services) while the increase in liabilities is primarily due to a sizeable increase in the ESC's net pension liability.

At June 30, 2016, capital assets represented 1.65% of total assets. Capital assets include land improvements, furniture and equipment and vehicles. The net investment in capital assets at June 30, 2016 was \$106,458. These capital assets are used to provide services to the students and are not available for future spending.

At June 30, 2016, a portion of the ESC's net position, \$1,660,959, represents resources that are subject to external restriction on how they may be used. Of this total, \$583,591 represents resources that are restricted for the ESC's federally funded grant programs and another \$974,028 is restricted for state funded programs. The remaining balance of unrestricted net position at June 30, 2016 is a deficit of \$36,980,729.

The table below illustrates the ESC's assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2016 and 2015.



The table on the following page shows the change in net position for fiscal years 2016 and 2015.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

Change in Net Position

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 23,219,550	\$ 19,378,364
Operating grants and contributions	6,219,565	5,775,781
General revenues:		
Grants and entitlements	1,096,168	985,788
Investment earnings	28,422	23,584
Other	<u>64,675</u>	<u>186,631</u>
Total revenues	<u>30,628,380</u>	<u>26,350,148</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,530,748	\$ 3,975,822
Special	7,364,408	5,468,456
Vocational	73,165	63,452
Adult/continuing	14,485	15,659
Other	162,247	280,973
Support services:		
Pupil	6,613,919	5,416,958
Instructional staff	6,727,080	6,124,353
Board of education	48,269	34,671
Administration	819,682	786,980
Fiscal	779,308	599,467
Business	586,628	516,513
Operations and maintenance	258,905	303,366
Pupil transportation	93,098	96,962
Central	224,062	803,243
Operation of non-instructional services	862,905	1,054,448
Extracurricular activities	6,431	7,010
Interest and fiscal charges	<u>1,226</u>	<u>1,793</u>
Total expenses	<u>29,166,566</u>	<u>25,550,126</u>
Change in net position	1,461,814	800,022
Net position (deficit) at beginning of year	<u>(36,675,126)</u>	<u>(37,475,148)</u>
Net position (deficit) at end of year	<u><u>\$ (35,213,312)</u></u>	<u><u>\$ (36,675,126)</u></u>

Governmental Activities

Net position of the ESC's governmental activities increased \$1,461,814. Total governmental expenses of \$29,166,566 were offset by program revenues of \$29,439,115 and general revenues of \$1,189,265.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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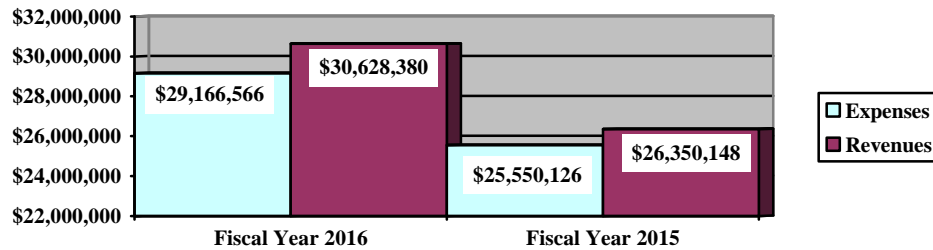
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The primary sources of revenue for governmental activities are derived from charges for services and sales, and operating grants and contributions. These revenue sources represent 96.12% of total governmental revenue. The overall increase in both revenues and expenses is primarily due to additional contracted services with member entities. The ESC also saw an increase in operating grants and contributions, mostly due to a Straight A Grant from the State which the ESC began receiving in fiscal year 2016.

The largest expense of the ESC is for support services, which were \$16,150,951 or 55.37% of total governmental expenses for fiscal year 2016. Instruction expenses accounted for another \$12,145,053 or 41.64% of the total expenses.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal years 2016 and 2015.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by general revenues such as unrestricted grants and entitlements.

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

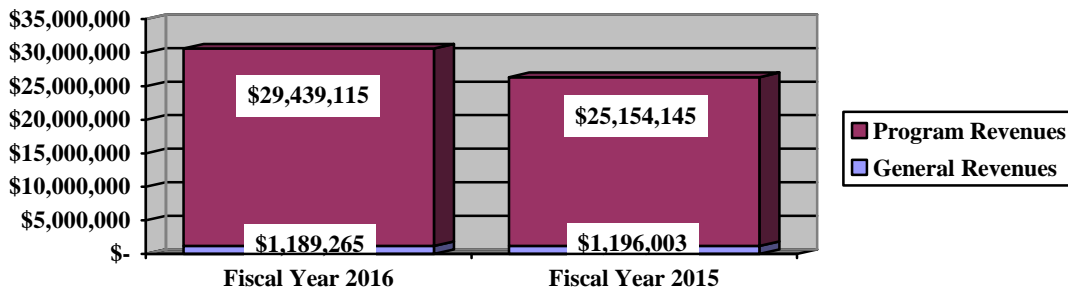
Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 4,530,748	\$ 4,521,800	\$ 3,975,822	\$ 3,854,496
Special	7,364,408	(2,086,581)	5,468,456	(1,474,446)
Vocational	73,165	64,879	63,452	63,452
Adult/continuing	14,485	14,485	15,659	15,659
Other	162,247	117,794	280,973	120,570
Support services:				
Pupil	6,613,919	(1,838,634)	5,416,958	(1,557,907)
Instructional staff	6,727,080	(1,604,122)	6,124,353	(926,873)
Board of education	48,269	37,269	34,671	23,671
Administration	819,682	(184,184)	786,980	(171,221)
Fiscal	779,308	(151,020)	599,467	(132,253)
Business	586,628	586,622	516,513	516,513
Operations and maintenance	258,905	206,034	303,366	252,742
Pupil transportation	93,098	92,569	96,962	96,719
Central	224,062	(123,337)	803,243	(209,009)
Operation of non-instructional services	862,905	70,257	1,054,448	(80,109)
Extracurricular activities	6,431	2,394	7,010	2,184
Interest and fiscal charges	<u>1,226</u>	<u>1,226</u>	<u>1,793</u>	<u>1,793</u>
Total expenses	<u>\$ 29,166,566</u>	<u>\$ (272,549)</u>	<u>\$ 25,550,126</u>	<u>\$ 395,981</u>

The ESC's charges for services and sales and operating grants and contributions, as a whole, are the primary support for ESC's operations. Nonetheless, the dependence upon other general revenues for governmental activities is apparent; 21.67% of instruction activities are supported through other general revenues.

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

Governmental Activities - General and Program Revenues



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

The ESC's Funds

At June 30, 2016, the ESC's governmental funds reported a combined fund balance of \$606,229, which represents a decrease from last year's total of \$1,377,727. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance (Deficit) <u>June 30, 2016</u>	Fund Balance <u>June 30, 2015</u>	<u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 41,280	\$ 197,054	\$ (155,774)	(79.05) %
Straight A Grant	(192,844)	-	(192,844)	n/a
Nonmajor governmental	<u>757,793</u>	<u>1,180,673</u>	<u>(422,880)</u>	<u>(35.82) %</u>
Total	<u>\$ 606,229</u>	<u>\$ 1,377,727</u>	<u>\$ (771,498)</u>	<u>(56.00) %</u>

General Fund

The ESC's general fund balance decreased by \$155,774. The tables that follow assist in illustrating the financial activities and change in fund balance of the general fund.

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase (Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Customer services	\$ 20,303,822	\$ 17,853,446	\$ 2,450,376	13.72 %
Tuition	2,356,126	1,000,830	1,355,296	135.42 %
Earnings on investments	30,188	26,847	3,341	12.44 %
Intergovernmental	1,603,643	1,636,783	(33,140)	(2.02) %
Other revenues	<u>65,450</u>	<u>186,701</u>	<u>(121,251)</u>	<u>(64.94) %</u>
Total	<u>\$ 24,359,229</u>	<u>\$ 20,704,607</u>	<u>\$ 3,654,622</u>	17.65 %
<u>Expenditures</u>				
Instruction	\$ 11,966,240	\$ 9,385,279	\$ 2,580,961	27.50 %
Support services	11,912,974	10,829,114	1,083,860	10.01 %
Non-instructional services	506,021	486,739	19,282	3.96 %
Debt service	<u>9,768</u>	<u>9,768</u>	-	-
Total	<u>\$ 24,395,003</u>	<u>\$ 20,710,900</u>	<u>\$ 3,684,103</u>	17.79 %

The overall increase in general fund revenues and expenses is a result of additional services requests from member entities. The primary source of revenue for the general fund comes from customer services and tuition revenues, which collectively comprise the revenue earned from services provided to other school districts. These two sources combined accounted for 93.02% of total general fund revenues in 2016, compared to 91.06% in the prior year.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

Straight A Grant Fund

The ESC's Straight A Grant fund was created in fiscal year 2016 to account for grant revenue from the State to help educators earn credentials to teach College Credit Plus courses. The Straight A Grant fund had revenues of \$237,084 and expenditures of \$429,928. Fund balance at June 30, 2016 was \$(192,844) due to spending approved grant monies in advance of receiving the funds.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the ESC had \$119,607 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2016 balances compared to June 30, 2015:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2016	2015
Furniture and equipment	\$ 107,685	\$ 101,986
Vehicles	11,922	13,177
Total	\$ 119,607	\$ 115,163

Capital asset acquisitions in fiscal year 2016, consisting of furniture and equipment, were \$23,369 and depreciation expense for the year was \$18,925. See Note 7 in the notes to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2016, the only long-term debt outstanding for the ESC is a capital lease obligation of \$13,149. Of this total, \$9,148 is due within one year and \$4,001 is due in more than one year. See Notes 8 and 9 in the notes to the basic financial statements for additional information on the ESC's debt administration.

Current Financial Related Activities

The ESC relies heavily on contracts with local, city, parochial and community schools in Mahoning County, State Foundation revenue, grants and the fiscal agency role we provide to several entities. The ESC's financial condition has remained stable. Through new contracts with locals, sponsorship capability and providing the fiscal and administrative role to several entities, the ESC will be able to provide the necessary funds to meet operating expenses in the future.

There are some challenges that the ESC faces that can affect funding. One challenge the ESC faces is the State's financial situation. The State has reduced dollars to the ESC's State Foundation, major programs and grants. These funds provide support to the ESC's programs that are offered to the districts the ESC serves. Without these funds local districts are forced to pay more of the services they contract for. The ESC is very sensitive to the cost of its programs to Mahoning County districts. Because of the funding reductions made from the State, the ESC's districts may be forced to contract for services from other entities who offer a better price.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Blaise Karlovic, Treasurer, Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 220, Youngstown, Ohio 44512-7019.

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,974,227
Receivables:	
Accounts	23,290
Intergovernmental	4,055,016
Accrued interest	4,353
Materials and supplies inventory	55,845
Capital assets:	
Depreciable capital assets, net	119,607
Capital assets, net	119,607
Total assets	<u>7,232,338</u>
Deferred outflows of resources:	
Pension - STRS	3,157,607
Pension - SERS	812,060
Total deferred outflows of resources	<u>3,969,667</u>
Liabilities:	
Accounts payable	22,745
Accrued wages and benefits payable	2,213,670
Intergovernmental payable	182,142
Pension and postemployment benefits payable	341,851
Unearned revenue	369,797
Long-term liabilities:	
Due within one year	165,962
Due in more than one year:	
Net pension liability (See Note 12)	39,266,661
Other amounts due in more than one year	518,088
Total liabilities	<u>43,080,916</u>
Deferred inflows of resources:	
Pension - STRS	2,864,180
Pension - SERS	470,221
Total deferred inflows of resources	<u>3,334,401</u>
Net position:	
Net investment in capital assets	106,458
Restricted for:	
Capital projects	9,817
Locally funded programs	76,383
State funded programs	974,028
Federally funded programs	583,591
Student activities	1,858
Other purposes	15,282
Unrestricted (deficit)	(36,980,729)
Total net position (deficit)	<u>\$ (35,213,312)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating Grants</u>	<u>Revenue and</u>
		<u>Services and Sales</u>	<u>and Contributions</u>	<u>Changes in</u>
				<u>Net Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 4,530,748	\$ -	\$ 8,948	\$ (4,521,800)
Special	7,364,408	9,188,338	262,651	2,086,581
Vocational	73,165	-	8,286	(64,879)
Adult/continuing.	14,485	-	-	(14,485)
Other	162,247	43,875	578	(117,794)
Support services:				
Pupil.	6,613,919	7,934,456	518,097	1,838,634
Instructional staff	6,727,080	4,152,349	4,178,853	1,604,122
Board of education	48,269	11,000	-	(37,269)
Administration.	819,682	781,879	221,987	184,184
Fiscal.	779,308	759,158	171,170	151,020
Business.	586,628	-	6	(586,622)
Operations and maintenance	258,905	1,647	51,224	(206,034)
Pupil transportation.	93,098	-	529	(92,569)
Central	224,062	341,986	5,413	123,337
Operation of non-instructional				
services	862,905	825	791,823	(70,257)
Extracurricular activities.	6,431	4,037	-	(2,394)
Interest and fiscal charges	1,226	-	-	(1,226)
Total governmental activities	\$ 29,166,566	\$ 23,219,550	\$ 6,219,565	272,549
General revenues:				
Grants and entitlements not restricted				
to specific programs				1,096,168
Investment earnings				28,422
Miscellaneous				64,675
Total general revenues				1,189,265
Change in net position				1,461,814
Net position (deficit) at beginning of year				(36,675,126)
Net position (deficit) at end of year				\$ (35,213,312)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Straight A Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 2,004,656	\$ -	\$ 969,571	\$ 2,974,227
Receivables:				
Accounts	23,035	-	255	23,290
Intergovernmental.	2,097,377	841,738	1,115,901	4,055,016
Accrued interest	4,353	-	-	4,353
Materials and supplies inventory	55,845	-	-	55,845
Due from other funds	601,096	-	-	601,096
Loans to other funds	2,614	-	-	2,614
Total assets	<u>\$ 4,788,976</u>	<u>\$ 841,738</u>	<u>\$ 2,085,727</u>	<u>\$ 7,716,441</u>
Liabilities:				
Accounts payable	\$ 17,525	\$ -	\$ 5,220	\$ 22,745
Accrued wages and benefits payable	2,036,409	-	177,261	2,213,670
Compensated absences payable	16,208	-	-	16,208
Intergovernmental payable	172,703	-	9,439	182,142
Pension and postemployment benefits payable	314,517	-	27,334	341,851
Due to other funds	-	192,844	408,252	601,096
Loans from other funds.	-	-	2,614	2,614
Unearned revenue.	369,434	-	363	369,797
Total liabilities.	<u>2,926,796</u>	<u>192,844</u>	<u>630,483</u>	<u>3,750,123</u>
Deferred inflows of resources:				
Customer services revenue not available.	1,816,786	-	-	1,816,786
Intergovernmental revenue not available.	-	841,738	697,451	1,539,189
Accrued interest not available.	3,078	-	-	3,078
Tuition revenue not available	986	-	-	986
Miscellaneous revenue not available	50	-	-	50
Total deferred inflows of resources	<u>1,820,900</u>	<u>841,738</u>	<u>697,451</u>	<u>3,360,089</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	55,845	-	-	55,845
Long-term loans	2,614	-	-	2,614
Unclaimed monies	13,719	-	-	13,719
Restricted:				
Capital improvements	-	-	9,817	9,817
Other purposes.	-	-	217,408	217,408
Student activities.	-	-	1,858	1,858
Committed:				
Capital improvements	-	-	740,755	740,755
Unassigned (deficit)	(30,898)	(192,844)	(212,045)	(435,787)
Total fund balances	<u>41,280</u>	<u>(192,844)</u>	<u>757,793</u>	<u>606,229</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,788,976</u>	<u>\$ 841,738</u>	<u>\$ 2,085,727</u>	<u>\$ 7,716,441</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	606,229
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			119,607
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Customer services receivable	\$	1,816,786	
Tuition receivable		986	
Other accounts receivable		50	
Accrued interest receivable		3,078	
Intergovernmental receivable		1,539,189	
Total		1,539,189	3,360,089
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred inflows and outflows of resources are not reported in governmental funds.			
Deferred outflows of resources - pension		3,969,667	
Deferred inflows of resources - pension		(3,334,401)	
Net pension liability		(39,266,661)	
Total		(39,266,661)	(38,631,395)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(654,693)	
Capital lease obligations		(13,149)	
Total		(667,842)	(667,842)
Net position of governmental activities			\$ (35,213,312)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Straight A Grant</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 2,356,126	\$ -	\$ 84,781	\$ 2,440,907
Earnings on investments	30,188	-	-	30,188
Charges for services	825	-	-	825
Customer services	20,303,822	-	-	20,303,822
Other local revenues	64,625	-	34,412	99,037
Intergovernmental - intermediate	-	-	1,116	1,116
Intergovernmental - state	1,577,282	237,084	986,145	2,800,511
Intergovernmental - federal	26,361	-	3,297,174	3,323,535
Total revenues	<u>24,359,229</u>	<u>237,084</u>	<u>4,403,628</u>	<u>28,999,941</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,576,169	-	7,584	4,583,753
Special	7,208,154	-	283,897	7,492,051
Vocational	68,302	-	7,067	75,369
Adult/continuing	14,365	-	-	14,365
Other	99,250	-	62,997	162,247
Support services:				
Pupil	6,236,665	-	550,594	6,787,259
Instructional staff	3,255,042	410,354	3,200,234	6,865,630
Board of education	36,126	-	12,449	48,575
Administration	618,384	-	215,200	833,584
Fiscal	600,811	19,574	167,347	787,732
Business	598,412	-	6	598,418
Operations and maintenance	206,516	-	52,226	258,742
Pupil transportation	92,574	-	524	93,098
Central	268,444	-	6,777	275,221
Operation of non-instructional services	506,021	-	310,511	816,532
Extracurricular activities	-	-	6,431	6,431
Facilities acquisition and construction	-	-	62,664	62,664
Debt service:				
Principal retirement	8,542	-	-	8,542
Interest and fiscal charges	1,226	-	-	1,226
Total expenditures	<u>24,395,003</u>	<u>429,928</u>	<u>4,946,508</u>	<u>29,771,439</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(35,774)</u>	<u>(192,844)</u>	<u>(542,880)</u>	<u>(771,498)</u>
Other financing sources (uses):				
Transfers in	-	-	120,000	120,000
Transfers (out)	<u>(120,000)</u>	<u>-</u>	<u>-</u>	<u>(120,000)</u>
Total other financing sources (uses)	<u>(120,000)</u>	<u>-</u>	<u>120,000</u>	<u>-</u>
Net change in fund balances	(155,774)	(192,844)	(422,880)	(771,498)
Fund balances at beginning of year	<u>197,054</u>	<u>-</u>	<u>1,180,673</u>	<u>1,377,727</u>
Fund balances (deficit) at end of year	<u>\$ 41,280</u>	<u>\$ (192,844)</u>	<u>\$ 757,793</u>	<u>\$ 606,229</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ (771,498)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$	23,369	
Current year depreciation		(18,925)	
Total			4,444

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Customer services		458,113	
Tuition		(4,338)	
Earnings on investments		(1,766)	
Intergovernmental		1,176,380	
Other revenues		50	
Total			1,628,439

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 8,542

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources. 2,443,217

Except for amounts reported as deferred inflows/outflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities. (1,805,999)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (45,331)

Change in net position of governmental activities \$ 1,461,814

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2016

	Agency
Assets:	
Equity in pooled cash and investments	\$ 1,075,893
Receivables:	
Intergovernmental	16,459
Total assets.	\$ 1,092,352
Liabilities:	
Accrued wages and benefits	\$ 4,388
Pension and postemployment benefits payable. .	614
Intergovernmental payable	63
Undistributed monies.	1,087,287
Total liabilities	\$ 1,092,352

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ESC

On July 18, 1914, the Mahoning County Governing Board was formed. In 1996 the Governing Board, as required by State law, underwent a name change to the Mahoning County Educational Service Center (the "ESC"). The ESC provides administrative, curricular, instructional, pupil personnel and professional staff development services to local school districts. Direct instructional programs are provided to students with disabilities, preschool students and their families.

The ESC operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State and federal agencies. The Governing Board oversees the ESC's operation and its staff of 247 certified and 65 non-certified personnel. Staff members support the educational efforts of 18 school districts, 3 community schools and various other entities throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC's significant accounting policies are described below.

A. Reporting Entity

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

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the ESC does not have any component units.

The ESC sponsors the Mahoning County High School and the Mahoning Unlimited Classroom, which are legally separate, start-up community schools. The ESC acts as fiscal agent for these entities; however, the ESC is not fiscally accountable, therefore these entities not reported as part of the reporting entity of the ESC.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS is a jointly governed organization among 26 school districts, 2 special education resource center, 2 county educational service centers and 20 non-public schools. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The eight-member Board of Directors consists of 2 treasurers and 6 superintendents from participating school districts. The ACCESS executive director and treasurer are ex-officio members of the Board of Directors. The degree of control exercised by any participating school district is limited to its representation on the Board. The ESC is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. The consortium revenues are generated from charges for services, State funding and E-rateable services.

State Support Team Region 5 (SST)

The SST is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana Counties and Youngstown City. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement and in particular, to improvements in instructional programs.

The SST is governed by a Governing Board made up of 19 representatives of the participating school districts, the business community and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The ESC serves as fiscal agent for the SST.

Mahoning Valley Regional Council of Governments ("Council")

The Council was created as a regional council of governments by an Agreement between the Board of Education of the ESC, the Board of Education of the Struthers City School District ("Struthers CSD") and the Board of Education of the Canfield Local School District ("Canfield LSD"). The Council is governed by a Governing Board consisting of one elected member of the ESC and one elected board member from the county to be chosen by appointment from the ESC Board; the Struthers CSD Superintendent; the Canfield LSD Superintendent; and two at-large Superintendent representatives and one at-large Treasurer member. The ESC's Treasurer is the Fiscal Officer for the Council.

The Council employs personnel to perform teaching and non-teaching services for educational entities, and the Council provides for the assignment, reassignment, evaluation, discipline, compensation and fringe benefits for such personnel. The Council enters into service agreements with participating entities in which the entities agree to pay the Council a percentage of all personnel costs incurred by the Council required to perform the services desired.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

RELATED ORGANIZATIONS

Mahoning Unlimited Classroom (“MUC”)

The MUC is a legally separate, conversion community school, served by a Board of Directors. The MUC focuses on providing students with curriculum and instruction via distance learning technology. The five-person Board of Directors consists of one person employed in an administrator position with the Mahoning County Career and Technical Center (“MCCT”), three people who are neither an officer nor employee of the ESC or MCCT who are public educators or other public officers, and one person who is appointed to represent the interests of the parents and students of the MUC. The ESC sponsored the MUC during fiscal year 2016 under Ohio Revised Code Chapter 3314.

Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The 5 members of the Governing Board of the ESC are also members of the Governing Board of the Mahoning County Career and Technical Center, which includes 2 other members. The Governing Board of the ESC cannot directly impose their will on the Mahoning County Career and Technical Center.

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials

The ESC participates in a group rating plan (GRP) for workers’ compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of CompManagement Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the ESC pays an enrollment fee to the GRP to cover the costs of administering the program.

Mahoning County School Employees Insurance Consortium

The Mahoning County School Employees Insurance Consortium is a shared risk pool comprised of 13 public school districts. The consortium is governed by an assembly, which consists of 1 representative from each participating school district (usually the superintendent or designee). The assembly elects officers for 1 year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

The following are the ESC's major governmental funds:

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

Straight A Grant fund - This fund is used to account for grant revenue from the State to help educators earn credentials to teach College Credit Plus courses.

Other governmental funds of the ESC are used to account for a) the accumulation of resources to be used for the future capital needs of the ESC, and b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The ESC's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the ESC are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

D. 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 also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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 ESC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the ESC 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: tuition, grants, interest and contract services.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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. See Note 12 for deferred outflows of resources related the ESC's net pension liability.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements 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 ESC, deferred inflows of resources include 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 ESC unavailable revenue includes, but is not limited to, tuition, services provided to other entities and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

See Note 12 for deferred inflows of resources related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - 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.

E. Budgetary Process

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Board approve appropriations and estimated resources. The ESC'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. Budgetary information for the general fund and major special revenue fund has been presented as supplementary information to the basic financial statements.

F. State Funding

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment.

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

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

G. Cash and Investments

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

During fiscal year 2016, investments were limited to federal agency securities, negotiable CDs, money market mutual funds and State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The ESC's investment in 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 and is recognized as an external investment pool by the ESC. The ESC measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$30,188, which includes \$10,847 assigned from other ESC funds.

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

An analysis of the ESC's investment account at year end is provided in Note 4.

H. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method. Inventory consists of expendable supplies held for consumption.

On the fund financial statements, reported supplies inventory is equally offset by nonspendable fund balance which indicates that it does not constitute available spendable resources, even though it is a component of net current assets.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

I. Capital Assets

General capital assets are those assets specifically related to 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The ESC maintains a capitalization threshold of \$1,000. The ESC 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.

All reported capital assets 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:

Description	Governmental Activities Estimated Lives
Land improvements	5 years
Furniture and equipment	5 - 15 years
Vehicles	10 - 11 years

J. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies the method used to accrue liabilities for leave benefits. 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 ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for all certified and classified 260 day employees.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that is probable that benefits will result in termination payments. The liability is an estimate based on the ESC's past experience of making termination payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

K. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “due to/from other funds”. On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “loans to/from other funds”. These amounts are eliminated in the governmental type activities columns of the statement of net position.

L. Pass-Through Grants

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the ESC has a financial or administrative role in the grants, the grants are reported as revenues and expenditures in a nonmajor governmental fund. Grants in which the ESC has no financial or administrative role and are passed-through to the local school districts in the County are reported in an agency fund.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Leases are recognized as a liability on the fund financial statements when due.

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the ESC 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 classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC’s Governing Board (the highest level of decision making authority). 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

O. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for education foundation.

The ESC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

R. 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 Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

S. 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.

T. Fair Market Value

The ESC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the ESC.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
Straight A Grant	\$ 192,844
 <u>Nonmajor funds</u>	
Public school preschool	2,795
Alternative schools	216
IDEA Part B	74,791
IDEA preschool grant for the handicapped	5,940
Miscellaneous federal grants	128,303

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all ESC deposits was \$(488,140), exclusive of investments. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$243,208 of the ESC’s bank balance of \$592,996 was exposed to custodial risk as discussed below, while \$349,788 was covered by the FDIC.

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

B. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 100,811	\$ 100,811	\$ -	\$ -	\$ -	\$ -
FNMA	780,182	-	-	-	780,182	-
FHLMC	375,313	-	-	-	-	375,313
Negotiable CDs	1,044,679	-	200,330	623,953	-	220,396
Money market mutual funds	22,333	22,333	-	-	-	-
Sweep account	1,830,455	1,830,455	-	-	-	-
STAR Ohio	384,487	384,487	-	-	-	-
Total	<u>\$ 4,538,260</u>	<u>\$ 2,338,086</u>	<u>\$ 200,330</u>	<u>\$ 623,953</u>	<u>\$ 780,182</u>	<u>\$ 595,709</u>

The weighted average maturity of investments is 1.07 years.

STAR Ohio is reported as its net asset value per share. All other investments for the ESC are valued using quoted market prices (Level I inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC’s investment policy limits investment portfolio maturities to five years or less.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The ESC's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 100,811	2.22
FNMA	780,182	17.19
FHLMC	375,313	8.27
Negotiable CDs	1,044,679	23.02
Money market mutual funds	22,333	0.49
Sweep account	1,830,455	40.33
STAR Ohio	<u>384,487</u>	<u>8.48</u>
Total	<u>\$ 4,538,260</u>	<u>100.00</u>

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (488,140)
Investments	<u>4,538,260</u>
Total	<u>\$ 4,050,120</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,974,227
Agency funds	<u>1,075,893</u>
Total	<u>\$ 4,050,120</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2016 consisted of the following as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$120,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated in the statement of activities.

- B. Interfund balances at June 30, 2016 as reported on the fund statements, consist of the following “loans to/from other funds”:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 2,614

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received, which is not expected to be within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2016 are reported on the statement of net position.

- C. Interfund balances at June 30, 2016 as reported on the fund statements, consist of the following “due to/from other funds”:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Straight A Grant	\$ 192,844
General	Nonmajor governmental	408,252

The primary purpose of the interfund balances is to cover negative cash balances at year-end. These interfund balances will be repaid once the anticipated revenues are received, which is expected to be within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2016 are reported on the statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts (fees and other charges for services), intergovernmental grants and fees charged to other governmental entities and accrued interest. All receivables are considered collectible in full. Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within one year.

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NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/16</u>
Governmental activities:				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 2,482	\$ -	\$ -	\$ 2,482
Furniture and equipment	1,553,777	23,369	-	1,577,146
Vehicles	80,944	-	-	80,944
	<u>1,637,203</u>	<u>23,369</u>	<u>-</u>	<u>1,660,572</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(2,482)	-	-	(2,482)
Furniture and equipment	(1,451,791)	(17,670)	-	(1,469,461)
Vehicles	(67,767)	(1,255)	-	(69,022)
	<u>(1,522,040)</u>	<u>(18,925)</u>	<u>-</u>	<u>(1,540,965)</u>
Governmental activities capital assets, net	<u>\$ 115,163</u>	<u>\$ 4,444</u>	<u>\$ -</u>	<u>\$ 119,607</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,105
Special	3,877
Adult/continuing	396
<u>Support services:</u>	
Pupil	647
Instructional staff	3,455
Administration	674
Fiscal	1,206
Business	5,379
Operations and maintenance	163
Central	109
Operation of non-instructional services	<u>914</u>
Total depreciation expense	<u>\$ 18,925</u>

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NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2013, the ESC entered into a lease agreement for the acquisition of copiers. The lease qualifies as a capital lease for accounting purposes and, therefore, a liability has been recorded at the present value of the future minimum lease payments at inception. Capital assets consisting of equipment have been capitalized in the amount of \$42,372. Accumulated depreciation at June 30, 2016 was \$13,482 leaving a current book value of \$28,890.

Principal and interest payments are made from the general fund and totaled \$8,542 and \$1,226, respectively, for fiscal year 2016. The following is a schedule of the future long-term minimum lease payments required under the lease agreement and the present value of the minimum lease payments as of June 30, 2016.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2017	\$ 9,768
2018	<u>4,070</u>
Total	13,838
Less: amount representing interest	<u>(689)</u>
Present value of minimum lease payments	<u>\$ 13,149</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2016, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/16</u>	Amounts Due in <u>One Year</u>
Capital lease obligation	\$ 21,691	\$ -	\$ (8,542)	\$ 13,149	\$ 9,148
Compensated absences	741,655	140,606	(211,360)	670,901	156,814
Net pension liability	<u>35,463,040</u>	<u>3,803,621</u>	<u>-</u>	<u>39,266,661</u>	<u>-</u>
Total	<u>\$ 36,226,386</u>	<u>\$3,944,227</u>	<u>\$ (219,902)</u>	<u>\$ 39,950,711</u>	<u>\$ 165,962</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid which is primarily the general fund. The capital lease is paid from the general fund; see Note 8 for more detail. See Note 12 for detail on the net pension liability.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and State laws. Certified and classified 260 day employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to certified and classified employees upon termination of employment. Teachers and certificated personnel employed for less than 260 days do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 53 days.

B. Life Insurance

The ESC provides life insurance and accidental death and dismemberment insurance to most employees through American United Life Insurance Company/OneAmerica Company, in the amount of \$25,000.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the ESC contracted with the School Insurance Consultants for property and general liability insurance.

Professional liability is provided by the Wells Fargo Insurance Services USA, Inc. with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and \$1,000 deductible. Vehicles are covered by the Wells Fargo Insurance Services USA, Inc. and hold a \$500 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2016, the ESC participated in the Ohio School Boards Association and Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual performance rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to members that can meet the GRP's selection criteria. The Benefits 1 Group provides administrative, cost control and actuarial services to the GRP.

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NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

The ESC has contracted with the Mahoning County School Employees Insurance Consortium to provide employee medical/surgical, dental and prescription drug benefits. Monthly premiums are as follows:

	Single Coverage		Family Coverage	
	Employee Share	Board Share	Employee Share	Board Share
Life	\$ -	\$ 2.50	\$ 1.60	N/A
Dental	3.44	30.92	8.28	74.50
Medical	49.53	445.76	277.36	1,109.43
Prescription	47.10	109.91	197.83	241.80
Vision	4.58	-	13.75	-
	Employee Spouse Coverage		Employee Children Coverage	
	Employee Share	Board Share	Employee Share	Board Share
Life	N/A	N/A	N/A	N/A
Dental	6.46	58.12	5.77	51.93
Medical	208.02	832.06	168.40	673.59
Prescription	148.37	181.35	120.11	146.81
Vision	9.17	-	8.25	-
Life Insurance - \$25,000				
\$2,500 for Children, \$5,000 for Spouse				

NOTE 12 - DEFINED BENEFIT PENSION PLANS

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 ESC’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.

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Ohio Revised Code limits the ESC’s obligation for this liability to annually required payments. The ESC cannot control benefit terms or the manner in which pensions are financed; however, the ESC 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 *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the ESC 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 entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was \$663,387 for fiscal year 2016. Of this amount, \$9,515 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The ESC 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 ESC's contractually required contribution to STRS was \$1,779,830 for fiscal year 2016. Of this amount, \$245,009 is reported as pension and postemployment benefits payable.

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 ESC's proportion of the net pension liability was based on the ESC'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>
Proportion of the net pension liability prior measurement date	0.16405900%	0.11166218%	
Proportion of the net pension liability current measurement date	<u>0.16030420%</u>	<u>0.10898240%</u>	
Change in proportionate share	<u>-0.00375480%</u>	<u>-0.00267978%</u>	
Proportionate share of the net pension liability	\$ 9,147,113	\$ 30,119,548	\$ 39,266,661
Pension expense	\$ 524,872	\$ 1,281,127	\$ 1,805,999

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 148,673	\$ 1,377,777	\$ 1,526,450
ESC contributions subsequent to the measurement date	<u>663,387</u>	<u>1,779,830</u>	<u>2,443,217</u>
Total deferred outflows of resources	<u>\$ 812,060</u>	<u>\$ 3,157,607</u>	<u>\$ 3,969,667</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 326,205	\$ 2,256,606	\$ 2,582,811
Changes in proportionate share	<u>144,016</u>	<u>607,574</u>	<u>751,590</u>
Total deferred inflows of resources	<u>\$ 470,221</u>	<u>\$ 2,864,180</u>	<u>\$ 3,334,401</u>

\$2,443,217 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (163,554)	\$ (669,303)	\$ (832,857)
2018	(163,554)	(669,303)	(832,857)
2019	(163,556)	(669,303)	(832,859)
2020	<u>169,116</u>	<u>521,506</u>	<u>690,622</u>
Total	<u>\$ (321,548)</u>	<u>\$ (1,486,403)</u>	<u>\$ (1,807,951)</u>

Actuarial Assumptions - SERS

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 12,683,759	\$ 9,147,113	\$ 6,168,966

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 not 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:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the ESC'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 ESC'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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
ESC's proportionate share of the net pension liability	\$ 41,838,324	\$ 30,119,548	\$ 20,209,575

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The ESC 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 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 ESC's surcharge obligation was \$77,806.

The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$77,806, \$121,180, and \$91,890, respectively. 100 percent has been contributed for all three years.

B. State Teachers Retirement System

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$115,111 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is not currently party to any legal proceedings that will have a material, if any, effect on the financial statements.

NOTE 15 - COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 561,331
Straight A Grant	605,512
Nonmajor governmental	<u>787,635</u>
Total	<u>\$ 1,954,478</u>

NOTE 16 - SUBSEQUENT EVENT

Effective July 1, 2016, the ESC no longer acts as fiscal agent for ACCESS. The money held by the ESC on behalf of ACCESS is reported in an agency fund on the fiscal year 2016 financial statements.

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 15,039,380	\$ 15,671,164	\$ 15,671,163	\$ (1)
Earnings on investments	20,545	21,010	24,235	3,225
Charges for services.	514	825	825	-
Contributions and donations	4,725	7,899	7,899	-
Customer services.	5,804,067	6,589,460	6,606,404	16,944
Other local revenues	110,277	55,403	55,403	-
Intergovernmental - state.	1,022,897	1,604,829	1,604,829	-
Intergovernmental - federal.	35,954	37,138	37,137	(1)
Total revenues	<u>22,038,359</u>	<u>23,987,728</u>	<u>24,007,895</u>	<u>20,167</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,227,971	4,751,988	4,751,381	607
Special.	5,843,417	7,178,922	7,196,070	(17,148)
Vocational.	69,242	68,181	68,181	-
Adult/continuing	13,903	8,549	8,549	-
Other.	172,528	117,745	117,745	-
Support services:				
Pupil.	5,744,044	6,163,810	6,163,953	(143)
Instructional staff	3,067,535	3,277,643	3,274,671	2,972
Board of education	64,219	43,813	43,813	-
Administration.	710,737	632,222	632,222	-
Fiscal	619,098	609,878	620,572	(10,694)
Business	604,632	616,222	607,204	9,018
Operations and maintenance.	267,544	229,662	229,164	498
Pupil transportation	101,555	92,737	92,737	-
Central.	785,759	294,365	294,365	-
Operation of non-instructional services	715,223	636,137	579,045	57,092
Total expenditures	<u>23,007,407</u>	<u>24,721,874</u>	<u>24,679,672</u>	<u>42,202</u>
Excess (deficiency) of revenues over (under) expenditures	(969,048)	(734,146)	(671,777)	62,369
Other financing sources (uses):				
Refund of prior year expenditure.	100,000	58	58	-
Refund of prior year receipt.	(821)	(821)	-	821
Transfers (out)	(30,000)	(120,000)	(120,000)	-
Advances in.	138,891	138,891	214,806	75,915
Advances (out)	(26,235)	(26,235)	-	26,235
Total other financing sources (uses)	<u>181,835</u>	<u>(8,107)</u>	<u>94,864</u>	<u>102,971</u>
Net change in fund balance	(787,213)	(742,253)	(576,913)	165,340
Fund balance at beginning of year.	2,197,587	2,197,587	2,197,587	-
Prior year encumbrances appropriated	315,183	315,183	315,183	-
Fund balance at end of year	<u>\$ 1,725,557</u>	<u>\$ 1,770,517</u>	<u>\$ 1,935,857</u>	<u>\$ 165,340</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STRAIGHT A GRANT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - state	\$ 1,078,822	\$ 1,078,822	\$ 237,084	\$ (841,738)
Total revenue	<u>1,078,822</u>	<u>1,078,822</u>	<u>237,084</u>	<u>(841,738)</u>
Expenditures:				
Current:				
Support services:				
Instructional staff	1,024,890	1,024,890	1,015,866	9,024
Fiscal	53,932	53,932	19,574	34,358
Total expenditures	<u>1,078,822</u>	<u>1,078,822</u>	<u>1,035,440</u>	<u>43,382</u>
Net change in fund balance	-	-	(798,356)	(798,356)
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (798,356)</u>	<u>\$ (798,356)</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 1 - BUDGETARY PROCESS

The ESC is not required under State statute to file budgetary information with the State Department of Education. However, the ESC Board does follow the budgetary process for control purposes.

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The schedule of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned, committed or restricted fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

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BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue fund are as follows:

Net Change in Fund Balance

	<u>General fund</u>	<u>Straight A Grant</u>
Budget basis	\$ (576,913)	\$ (798,356)
Net adjustment for revenue accruals	349,121	-
Net adjustment for expenditure accruals	(279,558)	-
Net adjustment for other sources/uses	(214,864)	-
Funds budgeted elsewhere	(14,108)	-
Adjustment for encumbrances	<u>580,548</u>	<u>605,512</u>
GAAP basis	<u>\$ (155,774)</u>	<u>\$ (192,844)</u>

Certain funds that are budgeted in separate funds are considered part of the general fund on a GAAP basis. This includes the rotary fund and the special trust fund.

REQUIRED SUPPLEMENTARY INFORMATION

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ESC'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.16030420%	0.16405900%	0.16405900%
ESC's proportionate share of the net pension liability	\$ 9,147,113	\$ 8,302,933	\$ 9,756,062
ESC's covered-employee payroll	\$ 4,825,994	\$ 4,767,237	\$ 2,949,913
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	330.72%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

Amounts presented as of the ESC's measurement date which is the prior fiscal year end.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ESC'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.10898240%	0.11166218%	0.11166218%
ESC's proportionate share of the net pension liability	\$ 30,119,548	\$ 27,160,107	\$ 32,352,941
ESC's covered-employee payroll	\$ 11,418,079	\$ 11,408,792	\$ 11,131,354
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	263.79%	238.06%	290.65%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

Amounts presented as of the ESC's measurement date which is the prior fiscal year end.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ESC CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 663,387	\$ 636,066	\$ 660,739	\$ 408,268
Contributions in relation to the contractually required contribution	<u>(663,387)</u>	<u>(636,066)</u>	<u>(660,739)</u>	<u>(408,268)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 4,738,479	\$ 4,825,994	\$ 4,767,237	\$ 2,949,913
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>
\$ 430,788	\$ 418,104	\$ 429,330	\$ 320,222	\$ 303,039	\$ 328,812
<u>(430,788)</u>	<u>(418,104)</u>	<u>(429,330)</u>	<u>(320,222)</u>	<u>(303,039)</u>	<u>(328,812)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,202,885	\$ 3,326,205	\$ 3,170,827	\$ 3,254,289	\$ 3,085,937	\$ 3,078,764
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ESC CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,779,830	\$ 1,598,531	\$ 1,483,143	\$ 1,447,076
Contributions in relation to the contractually required contribution	<u>(1,779,830)</u>	<u>(1,598,531)</u>	<u>(1,483,143)</u>	<u>(1,447,076)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 12,713,071	\$ 11,418,079	\$ 11,408,792	\$ 11,131,354
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,383,066	\$ 1,419,562	\$ 1,367,991	\$ 1,314,011	\$ 1,153,727	\$ 1,064,485
<u>(1,383,066)</u>	<u>(1,419,562)</u>	<u>(1,367,991)</u>	<u>(1,314,011)</u>	<u>(1,153,727)</u>	<u>(1,064,485)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 10,638,969	\$ 10,919,708	\$ 10,523,008	\$ 10,107,777	\$ 8,874,823	\$ 8,188,346
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financials for the methods and assumptions in this calculation.

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<i>Child Nutrition Cluster</i>			
National School Lunch Program	10.555	N/A	\$ 28,951
<i>Total Child Nutrition Cluster</i>			<u>28,951</u>
Total U.S. Department of Agriculture			<u>28,951</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<i>Special Education Cluster</i>			
Special Education Grants to States - IDEA Part B	84.027	N/A	1,582,425
Preschool Grants	84.173	N/A	148,451
<i>Total Special Education Cluster</i>			<u>1,730,876</u>
State Professional Development	84.323	N/A	1,039,420
Improving Teacher Quality Grants	84.367	N/A	7,400
English Language Acquisition Grants	84.365	N/A	39,245
<i>ARRA - Race to the Top</i>			
Race-to-the-Top Incentive Grants, Recovery Act	84.395	N/A	29,123
Race-to-the-Top Early Learning Challenge, Recovery Act	84.412	N/A	22,000
<i>Total ARRA - Race to the Top</i>			<u>51,123</u>
Total Passed Through Ohio Department of Education			<u>2,868,064</u>
<i>Passed Through Ohio Department of Health</i>			
Help Me Grow - Early Intervention Program	84.181	N/A	401,920
Total Passed Through Ohio Department of Health			<u>401,920</u>
<i>Passed Through Ohio Rehabilitation Services Commission</i>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	603,315
Total Passed Through Ohio Rehabilitation Services Commission			<u>603,315</u>
Total U.S. Department of Education			<u>3,873,299</u>
Total Expenditures of Federal Awards			<u>\$ 3,902,250</u>

The accompanying notes are an integral part of this schedule.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Mahoning County Educational Service Center (the ESC) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the ESC, it is not intended to and does not present the financial position, changes in net position, or cash flows of the ESC.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The ESC has an approved Indirect Cost Plan with the Ohio Department of Education for the fiscal year ended June 30, 2016 and the Indirect Cost Rate was 4.66 percent.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

Mahoning County Educational Service Center
Mahoning County
7320 North Palmyra Road
Canfield, Ohio 44406

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 Mahoning County Educational Service Center, Mahoning County, (the ESC) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated December 23, 2016.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the ESC'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 ESC'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 a 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 ESC'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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Charles Harris Associates

Charles E. Harris & Associates, Inc.

December 23, 2016

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

Mahoning County Educational Service Center
Mahoning County
7320 North Palmyra Road
Canfield, Ohio 44406

To the Governing Board:

Report on Compliance for Each Major Federal Program

We have audited the Mahoning County Educational Service Center's (the ESC) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the ESC's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the ESC's major federal programs.

Management's Responsibility

The ESC'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 ESC's compliance for each of the ESC's major federal programs 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 Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and 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 ESC'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 ESC's major programs. However, our audit does not provide a legal determination of the ESC's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

The ESC'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 ESC'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 ESC'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 compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
December 23, 2016

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster – CFDA #84.027 & #84.173; Help Me Grow – CFDA #84.181
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2016**

The prior audit report, for the year ended June 30, 2015, reported no material citations or recommendations.



Dave Yost • Auditor of State

MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2017**