MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING COUNTY, OHIO

AUDIT REPORT

For the Fiscal Year Ended June 30, 2017

Charles E. Harris
& Associates
certified public accountants & government consultants

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, 2016 through June 30, 2017. 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.

Dave Yost
Auditor of State

March 27, 2018

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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, the 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, 2017, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the ESC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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, the major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center, Mahoning County, Ohio, as of June 30, 2017, 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 that the management's discussion and analysis and schedules of net pension liabilities and pension contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ESC's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of 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 also not a required part of the basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedule and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018, on our consideration of the ESC’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.
January 17, 2018

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

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

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, 2017. 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 2017 are as follows:

- In total, net position of governmental activities decreased $2,085,598 which represents a 5.92% decrease from 2016.

- General revenues accounted for $1,323,623 in revenue or 4.51% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $27,999,946 or 95.49% of total revenues of $29,323,569.

- The ESC had $31,409,167 in expenses related to governmental activities; these expenses were offset by $27,999,946 in program specific charges for services and sales, grants or contributions and general revenues (primarily unrestricted grants and entitlements) of $1,323,623.

- The ESC's major governmental fund is the general fund. The general fund had $26,764,474 in revenues and other financing sources and $26,124,506 in expenditures and other financing uses. During fiscal year 2017, the general fund's fund balance increased from $41,280 to $681,248.

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 s*tatement of net position* and s*tatement 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 is the only governmental fund reported as a major fund.

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 2017?" 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.

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 12. 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 only major governmental fund is the general 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 23-53 of this report.

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 60 through 66 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, 2017 and June 30, 2016.

Net Position

	Governmental Activities 2017	Governmental Activities 2016
Assets		
Current and other assets	$ 5,971,900	$ 7,112,731
Capital assets, net	763,941	119,607
Total assets	6,735,841	7,232,338
Deferred outflows of resources		
Pensions	10,852,530	3,969,667
Total deferred outflows of resources	10,852,530	3,969,667
Liabilities		
Current liabilities	2,723,465	3,130,205
Long-term liabilities:		
Due within one year	205,401	165,962
Due in more than oe year:		
Net pension liability	50,276,918	39,266,661
Other amounts	598,611	518,088
Long-term liabilities	51,080,930	39,950,711
Total liabilities	53,804,395	43,080,916
Deferred inflows of resources		
Pensions	1,082,886	3,334,401
Total deferred inflows of resources	1,082,886	3,334,401
Net position		
Net investment in capital assets	619,576	106,458
Restricted	515,650	1,660,959
Unrestricted (deficit)	(38,434,136)	(36,980,729)
Total net position (deficit)	$ (37,298,910)	$ (35,213,312)

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.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the ESC's liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by $37,298,910.

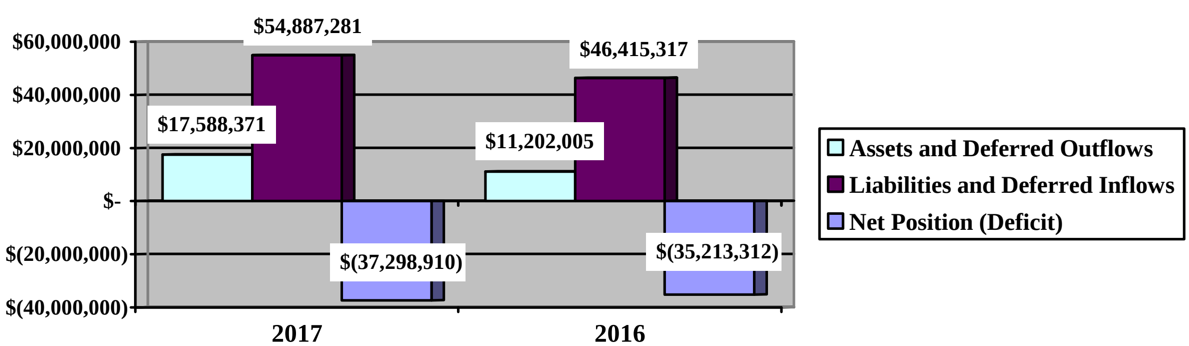
As the previous table illustrates, the most significant changes in net position were related to the ESC's net pension liability and deferred inflows/outflows of resources related to pensions. See Note 12 in the notes to the basic financial statements for additional information regarding these components of net position.

At June 30, 2017, capital assets represented 11.34% of total assets. Capital assets include land improvements, furniture and equipment and vehicles. The net investment in capital assets at June 30, 2017 was $619,576. These capital assets are used to provide services to the students and are not available for future spending.

At June 30, 2017, a portion of the ESC's net position, $515,650, represents resources that are subject to external restriction on how they may be used. Of this total, $363,945 represents resources that are restricted for the ESC's federally funded grant programs. The remaining balance of unrestricted net position at June 30, 2017 is a deficit of $38,434,136.

The table below illustrates the ESC's assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2017 and 2016.

Governmental Activities



The table on the following page shows the change in net position for fiscal years 2017 and 2016.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

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

Change in Net Position

	Governmental Activities 2017	Governmental Activities 2016
Revenues		
Program revenues:		
Charges for services and sales	$ 24,926,898	$ 23,219,550
Operating grants and contributions	3,073,048	6,219,565
General revenues:		
Grants and entitlements	1,123,853	1,096,168
Investment earnings	12,226	28,422
Other	187,544	64,675
Total revenues	29,323,569	30,628,380
Expenses		
Program expenses:		
Instruction:		
Regular	$ 6,017,484	$ 4,530,748
Special	7,783,207	7,364,408
Vocational	478,219	73,165
Adult/continuing	25,594	14,485
Other	109,907	162,247
Support services:		
Pupil	7,844,522	6,613,919
Instructional staff	4,937,748	6,727,080
Board of education	37,309	48,269
Administration	840,872	819,682
Fiscal	746,719	779,308
Business	743,773	586,628
Operations and maintenance	535,020	258,905
Pupil transportation	81,360	93,098
Central	348,009	224,062
Operation of non-instructional services	868,643	862,905
Extracurricular activities	3,809	6,431
Interest and fiscal charges	6,972	1,226
Total expenses	31,409,167	29,166,566
Change in net position	(2,085,598)	1,461,814
Net position (deficit) at beginning of year	(35,213,312)	(36,675,126)
Net position (deficit) at end of year	$ (37,298,910)	$ (35,213,312)

Governmental Activities

Net position of the ESC's governmental activities decreased $2,085,598. Total governmental expenses of $31,409,167 were offset by program revenues of $27,999,946 and general revenues of $1,323,623.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

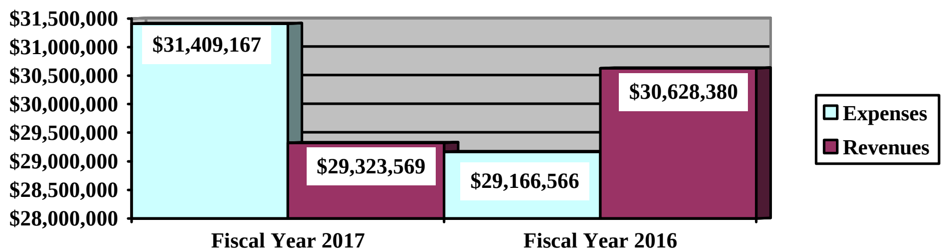
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 95.49% of total governmental revenue. The increase in charges for services and sales, as well as the overall increase in expenses, is primarily due to additional contracted services with member entities. Operating grants and contributions decreased, due in part to Straight A Grant funding from the State which the ESC received primarily in fiscal year 2016. The ESC also saw a decrease in federal grant funding during the year.

The largest expense of the ESC is for support services, which were $16,115,332 or 51.31% of total governmental expenses for fiscal year 2017. Instruction expenses accounted for another $14,414,411 or 45.89% of the total expenses. As discussed above, the increase in expenses is partially due to additional services provided. Another contributing factor is an increase pension expense for the ESC due to the overall increase in net pension liability reported by the School Employees Retirement System and the State Teachers Retirement System.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal years 2017 and 2016.

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.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

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

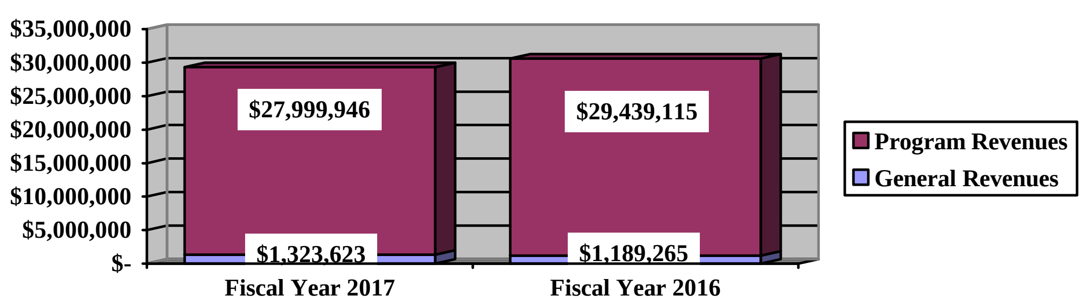
Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Program expenses				
Instruction:				
Regular	$ 6,017,484	$ 6,012,373	$ 4,530,748	$ 4,521,800
Special	7,783,207	(1,999,024)	7,364,408	(2,086,581)
Vocational	478,219	244,937	73,165	64,879
Adult/continuing	25,594	25,594	14,485	14,485
Other	109,907	105,807	162,247	117,794
Support services:				
Pupil	7,844,522	(1,535,426)	6,613,919	(1,838,634)
Instructional staff	4,937,748	(406,957)	6,727,080	(1,604,122)
Board of education	37,309	37,309	48,269	37,269
Administration	840,872	(152,300)	819,682	(184,184)
Fiscal	746,719	(152,604)	779,308	(151,020)
Business	743,773	743,773	586,628	586,622
Operations and maintenance	535,020	511,092	258,905	206,034
Pupil transportation	81,360	81,233	93,098	92,569
Central	348,009	(84,910)	224,062	(123,337)
Operation of non-instructional services	868,643	(28,695)	862,905	70,257
Extracurricular activities	3,809	47	6,431	2,394
Interest and fiscal charges	6,972	6,972	1,226	1,226
Total expenses	$ 31,409,167	$ 3,409,221	$ 29,166,566	$ (272,549)

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; 30.45% of instruction activities are supported through other general revenues.

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

Governmental Activities - General and Program Revenues



The ESC's Funds

At June 30, 2017, the ESC's governmental funds reported a combined fund balance of $1,054,554, which represents an increase from last year's total of $606,229. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

	Fund Balance (Deficit) June 30, 2017	Fund Balance June 30, 2016	(Decrease)	Percentage Change
General	$ 681,248	$ 41,280	$ 639,968	1,550.31 %
Nonmajor governmental	373,306	564,949	(191,643)	(33.92) %
Total	$ 1,054,554	$ 606,229	$ 448,325	73.95 %

General Fund

The ESC's general fund balance increased by $639,968. The tables that follow assist in illustrating the financial activities and change in fund balance of the general fund.

	2017 Amount	2016 Amount	Increase (Decrease)	Percentage Change
Revenues				
Customer services	$ 22,500,054	$ 20,303,822	$ 2,196,232	10.82 %
Tuition	2,261,259	2,356,126	(94,867)	(4.03) %
Earnings on investments	12,959	30,188	(17,229)	(57.07) %
Intergovernmental	1,643,458	1,603,643	39,815	2.48 %
Other revenues	185,333	65,450	119,883	183.17 %
Total	$ 26,603,063	$ 24,359,229	$ 2,243,834	9.21 %
Expenditures				
Instruction	$ 12,881,414	$ 11,966,240	$ 915,174	7.65 %
Support services	12,753,218	11,912,974	840,244	7.05 %
Non-instructional services	445,746	506,021	(60,275)	(11.91) %
Debt service	34,128	9,768	24,360	249.39 %
Total	$ 26,114,506	$ 24,395,003	$ 1,719,503	7.05 %

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 93.08% of total general fund revenues in 2017, compared to 93.02% in the prior year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the ESC had $763,941 invested in leasehold improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2017 balances compared to June 30, 2016:

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2017	2016
Leasehold improvements	$ 510,855	$ -
Furniture and equipment	242,419	107,685
Vehicles	10,667	11,922
Total	$ 763,941	$ 119,607

Capital asset acquisitions in fiscal year 2017 consisted of leasehold improvements in the amount of $550,152 and copier equipment in the amount of $158,372. The ESC reported depreciation expense for the year of $64,190. 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, 2017, the only long-term debt outstanding for the ESC is capital lease obligations of $144,365. Of this total, $33,454 is due within one year and $110,911 is due in more than one year. New capital lease additions during the year were $158,372 and principal payments on the leases totaled $27,156. 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.

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, 7320 North Palmyra Road, Canfield, Ohio 44406.

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

		Governmental Activities
Assets:		
Equity in pooled cash and investments	$	2,666,043
Receivables:		
Accounts		3,054
Intergovernmental		3,073,523
Accrued interest		3,612
Loans		167,679
Prepayments		29,050
Materials and supplies inventory		28,939
Capital assets:		
Depreciable capital assets, net		763,941
Capital assets, net		763,941
Total assets		6,735,841
Deferred outflows of resources:		
Pension - STRS		8,739,221
Pension - SERS		2,113,309
Total deferred outflows of resources		10,852,530
Liabilities:		
Accounts payable		29,272
Accrued wages and benefits payable		2,005,081
Intergovernmental payable		34,586
Pension and postemployment benefits payable		254,058
Unearned revenue		400,468
Long-term liabilities:		
Due within one year		205,401
Due in more than one year:		
Net pension liability (See Note 12)		50,276,918
Other amounts due in more than one year		598,611
Total liabilities		53,804,395
Deferred inflows of resources:		
Pension - STRS		455,681
Pension - SERS		627,205
Total deferred inflows of resources		1,082,886
Net position:		
Net investment in capital assets		619,576
Restricted for:		
Capital projects		9,817
Locally funded programs		38,344
State funded programs		87,563
Federally funded programs		363,945
Student activities		1,811
Other purposes		14,170
Unrestricted (deficit)		(38,434,136)
Total net position (deficit)	$	(37,298,910)

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, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Instruction:				
Regular	$ 6,017,484	$ 17	$ 5,094	$ (6,012,373)
Special	7,783,207	9,380,365	401,866	1,999,024
Vocational	478,219	-	233,282	(244,937)
Adult/continuing.	25,594	-	-	(25,594)
Other	109,907	4,041	59	(105,807)
Support services:				
Pupil.	7,844,522	8,680,142	699,806	1,535,426
Instructional staff	4,937,748	4,686,974	657,731	406,957
Board of education	37,309	-	-	(37,309)
Administration.	840,872	897,302	95,870	152,300
Fiscal.	746,719	827,189	72,134	152,604
Business.	743,773	-	-	(743,773)
Operations and maintenance	535,020	18,809	5,119	(511,092)
Pupil transportation.	81,360	-	127	(81,233)
Central	348,009	427,519	5,400	84,910
Operation of non-instructional services	868,643	778	896,560	28,695
Extracurricular activities.	3,809	3,762	-	(47)
Interest and fiscal charges	6,972	-	-	(6,972)
Total governmental activities	$ 31,409,167	$ 24,926,898	$ 3,073,048	(3,409,221)
General revenues:				
Grants and entitlements not restricted to specific programs				1,123,853
Investment earnings				12,226
Miscellaneous				187,544
Total general revenues				1,323,623
Change in net position				(2,085,598)
Net position (deficit) at beginning of year				(35,213,312)
Net position (deficit) at end of year				$ (37,298,910)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	$ 2,355,260	$ 310,783	$ 2,666,043
Receivables:			
Accounts	1,966	1,088	3,054
Intergovernmental	2,338,520	735,003	3,073,523
Accrued interest	3,612	-	3,612
Prepayments	27,796	1,254	29,050
Materials and supplies inventory	28,939	-	28,939
Due from other funds	322,628	-	322,628
Loans to other funds	170,293	-	170,293
Total assets	$ 5,249,014	$ 1,048,128	$ 6,297,142
Liabilities:			
Accounts payable	$ 24,435	$ 4,837	$ 29,272
Accrued wages and benefits payable	1,960,628	44,453	2,005,081
Compensated absences payable	47,713	-	47,713
Intergovernmental payable	33,975	611	34,586
Pension and postemployment benefits payable	245,997	8,061	254,058
Due to other funds	-	322,628	322,628
Loans from other funds	-	2,614	2,614
Unearned revenue	400,468	-	400,468
Total liabilities	2,713,216	383,204	3,096,420
Deferred inflows of resources:			
Customer services revenue not available	1,851,435	-	1,851,435
Intergovernmental revenue not available	-	291,438	291,438
Accrued interest not available	2,345	-	2,345
Tuition revenue not available	770	180	950
Total deferred inflows of resources	1,854,550	291,618	2,146,168
Fund balances:			
Nonspendable:			
Materials and supplies inventory	28,939	-	28,939
Prepayments	27,796	1,254	29,050
Long-term loans	2,614	-	2,614
Unclaimed monies	13,287	-	13,287
Restricted:			
Capital improvements	-	9,817	9,817
Special education	-	124	124
Other purposes	-	232,917	232,917
Student activities	-	1,811	1,811
Committed:			
Capital improvements	-	146,136	146,136
Assigned:			
Student instruction	532,516	-	532,516
Student and staff support	69,817	-	69,817
Other purposes	6,279	-	6,279
Unassigned (deficit)	-	(18,753)	(18,753)
Total fund balances	681,248	373,306	1,054,554
Total liabilities, deferred inflows of resources and fund balances	$ 5,249,014	$ 1,048,128	$ 6,297,142

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, 2017

Total governmental fund balances		$ 1,054,554
Amounts reported for governmental activities on the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		763,941
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Customer services receivable	$ 1,851,435	
Tuition receivable	950	
Accrued interest receivable	2,345	
Intergovernmental receivable	291,438	
Total		2,146,168
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	10,852,530	
Deferred inflows of resources - pension	(1,082,886)	
Net pension liability	(50,276,918)	
Total		(40,507,274)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(611,934)	
Capital lease obligations	(144,365)	
Total		(756,299)
Net position of governmental activities		$ (37,298,910)

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, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition	$ 2,261,259	$ 114,326	$ 2,375,585
Earnings on investments	12,959	-	12,959
Charges for services	778	-	778
Customer services	22,500,054	-	22,500,054
Other local revenues	184,555	26,868	211,423
Intergovernmental - state	1,593,755	2,413,847	4,007,602
Intergovernmental - federal	49,703	1,376,347	1,426,050
Total revenues	26,603,063	3,931,388	30,534,451
Expenditures:			
Current:			
Instruction:			
Regular	5,848,124	6,160	5,854,284
Special	6,836,060	477,822	7,313,882
Vocational	69,789	392,710	462,499
Adult/continuing	22,905	-	22,905
Other	104,536	5,371	109,907
Support services:			
Pupil	6,377,839	869,308	7,247,147
Instructional staff	3,426,376	1,114,519	4,540,895
Board of education	24,380	12,112	36,492
Administration	658,953	134,727	793,680
Fiscal	607,863	98,052	705,915
Business	813,400	-	813,400
Operations and maintenance	448,996	85,574	534,570
Pupil transportation	81,247	113	81,360
Central	314,164	5,400	319,564
Operation of non-instructional services	445,746	376,915	822,661
Extracurricular activities	-	3,809	3,809
Facilities acquisition and construction	-	550,439	550,439
Debt service:			
Principal retirement	27,156	-	27,156
Interest and fiscal charges	6,972	-	6,972
Total expenditures	26,114,506	4,133,031	30,247,537
Excess (deficiency) of revenues over (under) expenditures	488,557	(201,643)	286,914
Other financing sources (uses):			
Sale/loss of assets	3,039	-	3,039
Transfers in	-	10,000	10,000
Transfers (out)	(10,000)	-	(10,000)
Capital lease transaction	158,372	-	158,372
Total other financing sources (uses)	151,411	10,000	161,411
Net change in fund balances	639,968	(191,643)	448,325
Fund balances at beginning of year	41,280	564,949	606,229
Fund balances (deficit) at end of year	$ 681,248	$ 373,306	$ 1,054,554

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, 2017

Net change in fund balances - total governmental funds		$ 448,325
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	$ 708,524	
Current year depreciation	(64,190)	
Total		644,334
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Customer services	33,663	
Tuition	900	
Earnings on investments	(733)	
Intergovernmental	(1,247,751)	
Total		(1,213,921)
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.		27,156
The inception of a capital lease is recorded as other financing source in the funds; however, in the statement of activities, it is not reported as an other financing source as it increases liabilities on the statement of net position.		(158,372)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.		2,166,248
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.		(4,042,127)
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.		42,759
Change in net position of governmental activities		$ (2,085,598)

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, 2017

		Agency
Assets:		
Equity in pooled cash and investments	$	105,204
Receivables:		
Intergovernmental		586,998
Prepayments		3,140
Total assets	$	695,342
Liabilities:		
Accounts payable	$	201,255
Accrued wages and benefits		149,007
Pension and postemployment benefits payable		17,409
Intergovernmental payable		1,803
Loans payable		167,679
Undistributed monies		158,189
Total liabilities	$	695,342

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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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.

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 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.

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 2017 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.

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

The following is the ESC's major governmental fund:

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

Other governmental funds of the 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.

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.

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.

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 2017, 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.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

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 2017 amounted to $12,959, which includes $2,607 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. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

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

I. 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.

J. 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
Leasehold improvements	7 years
Furniture and equipment	5 - 15 years
Vehicles	10 - 11 years

K. 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.

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2017 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.

L. 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.

M. 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.

N. 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.

O. 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.

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

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.

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.

P. 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.

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

Q. 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.

R. 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.

S. 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 2017.

T. 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.

U. Fair 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 2017, the ESC has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the ESC.

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

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the ESC.

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

B. Deficit Fund Balances

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

Public School Preschool	$ 8,482
Miscellaneous State Grants	9,928

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.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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. Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and,

8. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed on hundred eighty days.

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.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all ESC deposits was $(397,307), exclusive of investments. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, none of the ESC's bank balance of $199,865 was exposed to custodial risk as discussed below, while $199,865 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, 2017, the ESC had the following investments and maturities:

		Investment Maturities				
Measurement/ Investment type	Measurement Value	6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Fair Value:						
FNMA	$ 29,956	$ -	$ 29,956	$ -	$ -	$ -
FHLMC	174,283	-	-	-	-	174,283
Negotiable CDs	1,447,143	620,401	-	-	200,244	626,498
Money Market Mutual Funds	31,333	31,333	-	-	-	-
Sweet Account	1,484,353	1,484,353	-	-	-	-
Amortized Cost:						
STAR Ohio	1,486	1,486	-	-	-	-
Total	$ 3,168,554	$ 2,137,573	$ 29,956	$ -	$ 200,244	$ 800,781

The weighted average maturity of investments is 1.03 years.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The District's investments in U.S. Government money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The District's investments in federal agency securities (FHLB, FNMA, FFCB, FHLMC, commercial paper) and negotiable CDs are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 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.

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, 2017:

Measurement/Investment type	Measurement Value	% of Total
Fair Value:		
FNMA	$ 29,956	0.95
FHLMC	174,283	5.50
Negotiable CDs	1,447,143	45.67
Money Market Mutual Funds	31,333	0.99
Sweep Account	1,484,353	46.85
Amortized Cost:		
STAR Ohio	1,486	0.05
Total	$ 3,168,554	100.00

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2017:

Cash and investments per note	
Carrying amount of deposits	$ (397,307)
Investments	3,168,554
Total	$ 2,771,247
Cash and investments per statement of net position	
Governmental activities	$ 2,666,043
Agency funds	105,204
Total	$ 2,771,247

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2017 consisted of the following as reported on the fund financial statements:

Transfers from general fund to:	Amount
Nonmajor governmental funds	$ 10,000

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, 2017 as reported on the fund statements, consist of the following “loans to/from other funds”:

Receivable fund	Payable fund	Amount
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, 2017 are reported on the statement of net position.

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

C. Interfund balances at June 30, 2017 as reported on the fund statements, consist of the following "due to/from other funds":

Receivable fund	Payable fund	Amount
General	Nonmajor governmental	$ 322,628

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, 2017 are reported on the statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2017 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.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 06/30/16	Additions	Disposals	Balance 06/30/17
Governmental activities:				
Capital assets, being depreciated:				
Land improvements	$ 2,482	$ -	$ -	$ 2,482
Leasehold improvements	-	550,152	-	550,152
Furniture and equipment	1,577,146	158,372	-	1,735,518
Vehicles	80,944	-	-	80,944
Total capital assets, being depreciated	1,660,572	708,524	-	2,369,096
Less: accumulated depreciation:				
Land improvements	(2,482)	-	-	(2,482)
Leasehold improvements	-	(39,297)	-	(39,297)
Furniture and equipment	(1,469,461)	(23,638)	-	(1,493,099)
Vehicles	(69,022)	(1,255)	-	(70,277)
Total accumulated depreciation	(1,540,965)	(64,190)	-	(1,605,155)
Governmental activities capital assets, net	$ 119,607	$ 644,334	$ -	$ 763,941

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 2,447
Special	3,257
Adult/continuing	
Support services:	
Pupil	358
Instructional staff	2,877
Administration	942
Fiscal	1,144
Business	51,979
Operations and maintenance	163
Central	109
Operation of non-instructional services	914
Total depreciation expense	$ 64,190

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2013 and 2017, the ESC entered into lease agreements for the acquisition of copiers. The leases qualify 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 $200,744. Accumulated depreciation at June 30, 2017 was $24,533 leaving a current book value of $176,211.

Principal and interest payments are made from the general fund and totaled $27,156 and $6,972, respectively, for fiscal year 2017. 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, 2017.

Fiscal Year Ending June 30,	Amount
2018	$ 40,610
2019	36,540
2020	36,540
2021	36,540
2022	12,181
Total	162,411
Less: amount representing interest	(18,046)
Present value of minimum lease payments	$ 144,365

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2017, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/16	Additions	Reductions	Balance Outstanding 06/30/17	Amounts Due in One Year
Capital lease obligation	$ 13,149	$ 158,372	$ (27,156)	$ 144,365	$ 33,454
Compensated absences	670,901	146,933	(158,187)	659,647	171,947
Net pension liability	39,266,661	11,010,257	-	50,276,918	-
Total	$ 39,950,711	$ 11,315,562	$ (185,343)	$ 51,080,930	$ 205,401

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.

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 2017, 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.

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2017, 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.

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	$ 2.50
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.

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:

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2017, 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 $353,242 for fiscal year 2017. Of this amount, $8,082 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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was $1,813,006 for fiscal year 2017. Of this amount, $243,103 is reported as pension and postemployment benefits payable.

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2016, 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:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.16030420%	0.10898240%	
Proportion of the net pension liability current measurement date	0.14777739%	0.11788892%	
Change in proportionate share	-0.01252681%	0.00890652%	
Proportionate share of the net pension liability	$ 10,815,942	$ 39,460,976	$ 50,276,918
Pension expense	$ 877,806	$ 3,164,322	$ 4,042,128

At June 30, 2017, the ESC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 145,885	$ 1,594,413	$ 1,740,298
Net difference between projected and actual earnings on pension plan investments	892,159	3,276,320	4,168,479
Changes of assumptions	722,023	-	722,023
Difference between District contributions and proportionate share of contributions/ change in proportionate share	-	2,055,482	2,055,482
District contributions subsequent to the measurement date	353,242	1,813,006	2,166,248
Total deferred outflows of resources	$ 2,113,309	$ 8,739,221	$ 10,852,530
Deferred inflows of resources			
Difference between District contributions and proportionate share of contributions/ change in proportionate share	627,205	455,681	1,082,886
Total deferred inflows of resources	$ 627,205	$ 455,681	$ 1,082,886

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

$2,166,248 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$ 199,860	$ 1,133,161	$ 1,333,021
2019	199,221	1,133,160	1,332,381
2020	477,322	2,390,374	2,867,696
2021	256,459	1,813,839	2,070,298
Total	$ 1,132,862	$ 6,470,534	$ 7,603,396

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

***Sensitivity of the 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 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	$ 14,319,632	$ 10,815,942	$ 7,883,206

Actuarial Assumptions - STRS

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

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

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

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

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:

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Sensitivity of the 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	$ 52,440,431	$ 39,460,976	$ 28,512,041

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to ESC's NPL is expected to be significant.

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 at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, 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 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the ESC's surcharge obligation was $2,867.

The ESC's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $2,867, $77,806, and $121,180, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

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.

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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

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.

C. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the ESC.

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:

Fund	Year-End Encumbrances
General	$ 817,403
Nonmajor governmental	119,063
Total	$ 936,466

NOTE 16 - OPERATING LEASE

The ESC has entered into a lease to rent a building from the Mahoning County Career and Technical Center (MCCTC). The initial lease term is seven years, from July 1, 2017 through June 30, 2023. Rent payments are payable in equal semi-annual installments of $284,984 beginning on December 1, 2018, with installment payments occurring on December 1 and June 1 each year thereafter. The ESC shall pay for all utilities, insurance and maintenance expenses during the lease.

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

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, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues:				
From local sources:				
Tuition	$ 16,454,722	$ 16,454,722	$ 16,142,402	$ (312,320)
Earnings on investments	25,447	25,447	32,148	6,701
Charges for services.	866	866	778	(88)
Rental income.	-	-	113,957	113,957
Contributions and donations	8,294	8,294	7,076	(1,218)
Customer services.	6,936,724	6,936,724	8,498,769	1,562,045
Other local revenues	58,173	58,173	60,838	2,665
Intergovernmental - state.	1,685,070	1,692,570	1,587,361	(105,209)
Intergovernmental - federal.	38,994	38,994	49,703	10,709
Total revenues	25,208,290	25,215,790	26,493,032	1,277,242
Expenditures:				
Current:				
Instruction:				
Regular	4,981,767	6,906,767	6,030,145	876,622
Special.	7,547,282	7,547,282	7,270,033	277,249
Vocational.	71,589	71,589	70,166	1,423
Adult/continuing	8,980	8,980	24,927	(15,947)
Other.	122,707	122,707	121,151	1,556
Support services:				
Pupil.	6,468,762	6,468,762	6,486,719	(17,957)
Instructional staff	3,437,364	3,437,364	3,507,517	(70,153)
Board of education	45,588	45,588	31,043	14,545
Administration.	663,122	663,122	692,099	(28,977)
Fiscal	650,201	650,201	631,178	19,023
Business	637,160	637,160	720,844	(83,684)
Operations and maintenance.	239,515	239,515	491,962	(252,447)
Pupil transportation	97,366	97,366	57,455	39,911
Central.	308,032	308,032	412,489	(104,457)
Operation of non-instructional services	605,185	605,185	468,337	136,848
Total expenditures	25,884,620	27,809,620	27,016,065	793,555
Excess (deficiency) of revenues over (under) expenditures	(676,330)	(2,593,830)	(523,033)	2,070,797
Other financing sources (uses):				
Refund of prior year expenditure.	61	61	9,891	9,830
Refund of prior year receipt.	-	-	216	216
Transfers (out)	(126,000)	(126,000)	(10,000)	116,000
Advances in.	225,545	225,545	-	(225,545)
Sale/loss of assets.	-	-	3,039	3,039
Total other financing sources (uses)	99,606	99,606	3,146	(96,460)
Net change in fund balance	(576,724)	(2,494,224)	(519,887)	1,974,337
Fund balance at beginning of year.	1,935,857	1,935,857	1,935,857	-
Prior year encumbrances appropriated	580,548	580,548	580,548	-
Fund balance at end of year	$ 1,939,681	$ 22,181	$ 1,996,518	$ 1,974,337

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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);

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 are as follows:

Net Change in Fund Balance

	General fund
Budget basis	$ (519,887)
Net adjustment for revenue accruals	105,306
Net adjustment for expenditure accruals	126,860
Net adjustment for other sources/uses	148,265
Funds budgeted elsewhere	(53,551)
Adjustment for encumbrances	832,975
GAAP basis	$ 639,968

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

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

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 FOUR FISCAL YEARS

	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.15296669%	0.16030420%	0.16405900%	0.16405900%
ESC's proportionate share of the net pension liability	$ 10,815,942	$ 9,147,113	$ 8,302,933	$ 9,756,062
ESC's covered-employee payroll	$ 4,616,327	$ 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	234.30%	189.54%	174.17%	330.72%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

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 FOUR FISCAL YEARS

	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.11788892%	0.10898240%	0.11166218%	0.11166218%
ESC's proportionate share of the net pension liability	$ 39,460,976	$ 30,119,548	$ 27,160,107	$ 32,352,941
ESC's covered-employee payroll	$ 12,711,636	$ 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	310.43%	263.79%	238.06%	290.65%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 353,242	$ 663,387	$ 636,066	$ 660,739
Contributions in relation to the contractually required contribution	(353,242)	(663,387)	(636,066)	(660,739)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 2,523,157	$ 4,738,479	$ 4,825,994	$ 4,767,237
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
$ 408,268	$ 430,788	$ 418,104	$ 429,330	$ 320,222	$ 303,039
(408,268)	(430,788)	(418,104)	(429,330)	(320,222)	(303,039)
$ -	$ -	$ -	$ -	$ -	$ -
$ 2,949,913	$ 3,202,885	$ 3,326,205	$ 3,170,827	$ 3,254,289	$ 3,085,937
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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MAHONING COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 1,813,006	$ 1,779,830	$ 1,598,531	$ 1,483,143
Contributions in relation to the contractually required contribution	(1,813,006)	(1,779,830)	(1,598,531)	(1,483,143)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 12,950,043	$ 12,713,071	$ 11,418,079	$ 11,408,792
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

2013	2012	2011	2010	2009	2008
$ 1,447,076	$ 1,383,066	$ 1,419,562	$ 1,367,991	$ 1,314,011	$ 1,153,727
(1,447,076)	(1,383,066)	(1,419,562)	(1,367,991)	(1,314,011)	(1,153,727)
$ -	$ -	$ -	$ -	$ -	$ -
$ 11,131,354	$ 10,638,969	$ 10,919,708	$ 10,523,008	$ 10,107,777	$ 8,874,823
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR ***Pass Through Grantor*** **Program / Cluster Title**	**Federal CFDA Number**	**Total Federal Expenditures**
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through Ohio Department of Education		
Child Nutrition Cluster		
National School Lunch Program	10.555	$ 44,813
Total Child Nutrition Cluster		44,813
Total U.S. Department of Agriculture		**44,813**
U.S. DEPARTMENT OF EDUCATION		
Passed Through Ohio Department of Education		
Special Education Cluster		
Special Education Grants to States - IDEA Part B	84.027	1,841,196
Preschool Grants	84.173	173,664
Total Special Education Cluster		2,014,860
State Professional Development	84.323	262,583
English Language Acquisition Grants	84.365	28,673
Total Passed Through Ohio Department of Education		**2,306,116**
Passed Through Ohio Rehabililitation Services Commission		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	477,950
Total Passed Through Ohio Rehabilitation Services Commission		**477,950**
Total U.S. Department of Education		**2,784,066**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Ohio Department of Health		
ACA-Maternal, Infant and Early Childhood Home Visitation Program	93.505	382,300
Total Passed Through Ohio Department of Health		**382,300**
Total U.S. Department of Health and Human Services		**382,300**
Total Expenditures of Federal Awards		**$ 3,211,179**

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, 2017

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, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the ESC, it is not intended to and does not present the financial position or changes in net position 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 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, 2017 and the Indirect Cost Rate was 4.78 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.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2017, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ESC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the ESC's internal control. Accordingly, we do not express an opinion on the effectiveness of the ESC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility a material misstatement of the ESC's financial statements will not be prevented or detected and corrected on a timely basis. 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, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ESC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ESC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles E. Harris & Associates, Inc.
January 17, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR 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, Mahoning County, Ohio's (the ESC) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the ESC's major federal programs for the year ended June 30, 2017. The ESC's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance 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 express an opinion on compliance for each of the ESC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. 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, Mahoning County, Ohio complied, in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the ESC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the ESC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program, to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we have do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirements of a federal program on a timely basis. 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 type of compliance requirements of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Charles E Harris & Associates

Charles E. Harris & Associates, Inc.
January 17, 2018

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017

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):**	State Professional Development – CFDA #84.323; Rehabilitation Services – Vocational Rehabilitation Grants to States – CFDA #84.126
(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?**	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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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
APRIL 17, 2018