SUMMIT COUNTY EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

SUMMIT COUNTY EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Summit County Educational Service Center
Summit County
420 Washington Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Governors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Service Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Summit County Educational Service Center, Summit 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 this presentation to include *management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

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

The Schedule of Receipts and Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

January 26, 2018

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

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net position decreased $1,302,442, which represents a 7% decrease from 2016.

- During the fiscal year, outstanding capital leases decreased from $662,264 to $612,434 due to principal payments made by the Service Center, offset by the issuance of a new lease.

Using this Annual Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center'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 Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Service Center, the general fund and the educational regional service system fund are the most significant funds.

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the *Statement of Net Position* and the *Statement of Activities*, Governmental Activities include the Service Center's programs and services, including instruction, support services, extracurricular activities, and interest and fiscal charges.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 17. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and educational regional service system fund.

Governmental Funds

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

Reporting the Service Center's Fiduciary Responsibilities

The Service Center is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The Service Center also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 21 and 22. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

The Service Center as a Whole

Recall that the Statement of Net Position provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net position for 2017 compared to 2016:

Table 1
Net Position

	Governmental Activities	
	2017	2016
Assets		
Current and Other Assets	$ 7,769,153	$ 8,135,938
Capital Assets	1,781,137	1,793,951
Total Assets	9,550,290	9,929,889
Deferred Outflows of Resources		
Pension	5,873,738	3,248,225
Liabilities		
Other Liabilities	1,901,920	1,720,735
Long-Term Liabilities		
Due Within One Year	152,097	112,737
Due in More Than One Year		
Net Pension Liability	30,719,134	26,673,903
Other Amounts	608,421	676,780
Total Liabilities	33,381,572	29,184,155
Deferred Inflows of Resources		
Pension	1,762,481	2,411,542
Net Position		
Net Investment in Capital Assets	1,168,703	1,131,687
Restricted	493,106	807,698
Unrestricted	(21,381,834)	(20,356,968)
Total Net Position	$ (19,720,025)	$ (18,417,583)

In a previous fiscal year, the Service Center 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 Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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 new standards required by GASB 68, the net pension liability equals the Service Center's proportionate share of each plan's collective:

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

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

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

In accordance with GASB 68, the Service Center'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 of resources.

At year end, capital assets represented 19 percent of total assets. Capital assets include, land, buildings and improvements, furniture and equipment and vehicles. The net investment in capital assets was $1,168,703 at June 30, 2017. These capital assets are used to provide services to students and are not available for future spending. Although the Service Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Service Center's net position, $493,106 represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position is a deficit of $21,381,834, which is primarily caused by the implementation of GASB 68.

The increase in long term liabilities and deferred outflows of resources for pension and the decrease in deferred inflows of resources for pension were primarily caused by changes related to net pension liability during 2017.

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In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2017 and 2016.

Table 2
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues		
Program Revenues:		
Charges for Services	$ 10,365,383	$ 11,733,040
Operating Grants	2,731,692	2,736,728
Total Program Revenues	13,097,075	14,469,768
General Revenues:		
Grants and Entitlements Not Restricted	1,061,593	821,960
Other	28,059	34,693
Total General Revenues	1,089,652	856,653
Total Revenues	14,186,727	15,326,421
Program Expenses		
Instruction:		
Regular	729,137	1,555,550
Special	4,378,934	4,177,389
Vocational	24,171	82,482
Support Services:		
Pupils	3,477,814	3,481,946
Instructional Staff	4,239,578	3,210,954
Board of Governors	54,958	45,278
Administration	1,346,314	1,139,865
Fiscal	406,292	328,460
Business	231,929	161,857
Operation and Maintenance of Plant	424,139	387,830
Central	99,793	79,335
Extracurricular Activities	48,396	37,536
Debt Service:		
Interest and Fiscal Charges	27,714	28,985
Total Expenses	15,489,169	14,717,467
Increase (Decrease) in Net Position	(1,302,442)	608,954
Net Position at Beginning of Year	(18,417,583)	(19,026,537)
Net Position at End of Year	$ (19,720,025)	$ (18,417,583)

Fluctuations among individual program revenues and expenses are a result of a change in how certain consultant services are provided.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 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 charges for services and restricted grants and entitlements.

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2017	2016	2017	2016
Instruction:				
Regular	$ 729,137	$ 1,555,550	$ (251,155)	$ 203,594
Special	4,378,934	4,177,389	(161,715)	(992,511)
Vocational	24,171	82,482	(5,977)	49,643
Support Services:				
Pupils	3,477,814	3,481,946	473,284	392,776
Instructional Staff	4,239,578	3,210,954	890,039	(501,216)
Board of Governors	54,958	45,278	54,958	34,175
Administration	1,346,314	1,139,865	665,599	595,216
Fiscal	406,292	328,460	299,300	171,479
Business	231,929	161,857	231,929	161,857
Operation and Maintenance of Plant	424,139	387,830	188,360	89,957
Central	99,793	79,335	(8,585)	53,089
Extracurricular Activities	48,396	37,536	(11,657)	(39,345)
Debt Service:				
Interest and Fiscal Charges	27,714	28,985	27,714	28,985
Total Expenses	$ 15,489,169	$ 14,717,467	$ 2,392,094	$ 247,699

For all governmental activities, program receipts support is 85%. The primary support of the Service Center is contracted fees and services provided to member districts; however, it is the intention of the Board of Governors not to overcharge the districts served and to utilize the general revenues to offset the cost of programs to member districts.

The allocation of charges for services revenue was updated during 2017. For comparability purposes, the net cost of service for 2016 has also been updated to reflect this change

Governmental Funds

Information about the Service Center's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting.

The general fund's net change in fund balance for fiscal year 2017 was a decrease of $429,262, which was primarily caused by a decrease in charges for services due to the fluctuation of services provided.

The educational regional service system fund's net change in fund balance for fiscal year 2017 was an increase of $128,324. This was primarily caused by an increase in grant receipts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the Service Center had $1,781,137 invested in capital assets. Table 4 shows fiscal year 2017 balances compared with 2016.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2017	2016
Land	$ 207,778	$ 207,778
Furniture and Equipment	90,593	62,771
Buildings and Improvements	1,468,896	1,507,551
Vehicles	13,870	15,851
Totals	$ 1,781,137	$ 1,793,951

The $12,814 decrease in capital assets was attributable to depreciation exceeding current year additional purchases. See Note 5 for more information about the capital assets of the Service Center.

Debt

At year end, the Service Center had only capitalized leases as outstanding debt obligations. The lease obligations outstanding at year end totaled $612,434. The lease balance consisted of a lease-purchase agreements for an HVAC heating and cooling project and copiers. See Note 10 to the basic financial statements for detail on the Service Center's long-term obligation.

	Governmental Activities	
	2017	2016
Lease Obligations	$ 612,434	$ 662,264

Current Issues

House Bill 115 established the Educational Regional Service System (ERSS) in 2006. This system requires a coordinated, integrated and aligned system to support state and school district efforts to improve school effectiveness and student achievement. The system consists of sixteen regions. Each region has a fiscal agent. The selection of a fiscal agent was through a RFP (request for proposal) process. Fiscal Agents in each region have the responsibility of allocating resources to provide regional services and also assuring that the state-sponsored regional improvement initiatives are deployed according to Ohio Department of Education guidance. The Summit County Educational Service Center is the Region 8 fiscal agent. The Summit County Educational Service Center will work hard to ensure our districts are involved and benefit from Region 8 services.

While the Regional Service System has slightly changed the landscape of the Summit County Educational Service Center, we are still creating new services that assist our community and school districts. The organization sponsored a community conversion school. This school was located in Springfield Township, Ohio and served children in grades kindergarten through fourth grade. Fiscal year 2010 was its first year of operation, fiscal year 2016 was the seventh. Due to requirements mandated by the Ohio Department of Education, the Summit County Educational Service Center decided it was not beneficial to sponsor the community school. For this reason, we turned sponsorship over to the Ohio Department of Education. We also continue an Autism Family School. This School, which began in 2010, is to provide educational services for an autism center located in Copley Township. The school is named Kids First. This school opened in Fall of 2010 and is also currently in year seven of operation. Demand for Kids First by school districts, seeking to serve autistic students, has continued to grow. While the goal of the school is to return students to their home school, it became necessary to open a school that created continued support for students who were not ready to return to their home school. This school is which was located in the City of Tallmadge has been combined with the Copley school for purposes of efficiency. Services for students now extend to middle and high school aged students with autism.

Yet another change in legislation allows school districts to choose the Educational Service Center they wish to align with. This change can be made every two years. Fiscal year 2016 brought the loss of three school districts to the Educational Service Center. The three districts who left were Green Local of Summit County, Revere Local and Twinsburg City School districts. Field Local from Portage County decided to join the Summit Educational Service Center. Current member districts need to inform their current ESC of their intention to make a change. The next opportunity for districts to choose a different Educational Service Center will be no later than December 31, 2019, which would be effective for the fiscal year beginning July 1, 2020. The district must inform the Ohio Department of Education which ESC they have chosen. This freedom to choose has only increased the organization's efforts to improve. We feel confident the Summit Educational Service Center will become better in the long run. All districts associated with Summit Educational Service Center have chosen to keep their association with us.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Educational Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Summit County Educational Service Center Treasurer/CFO Office at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

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Summit County Educational Service Center
Summit County, Ohio
Statement of Net Position
June 30, 2017

		Governmental Activities
Assets		
Equity in Pooled Cash and Investments	$	3,871,590
Receivables:		
Accounts		19,548
Intergovernmental		3,878,015
Nondepreciable Capital Assets		207,778
Depreciable Capital Assets (Net)		1,573,359
Total Assets		9,550,290
Deferred Outflows of Resources		
Pension		5,873,738
Liabilities		
Accounts Payable		41,702
Accrued Wages and Benefits		1,329,325
Intergovernmental Payable		378,580
Accrued Vacation Leave Payable		144,443
Matured Compensated Absences Payable		7,870
Long Term Liabilities:		
Due Within One Year		152,097
Due In More Than One Year		
Net Pension Liability		30,719,134
Other Amounts Due In More Than One Year		608,421
Total Liabilities		33,381,572
Deferred Inflows of Resources		
Pension		1,762,481
Net Position		
Net Investment in Capital Assets		1,168,703
Restricted For:		
Educational Regional Service System		481,867
Federally Funded Programs		4,177
State Grants		1,058
Local Grants		6,004
Unrestricted		(21,381,834)
Total Net Position	$	(19,720,025)

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants, and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction:				
Regular	$ 729,137	$ 971,337	$ 8,955	$ 251,155
Special	4,378,934	4,289,588	251,061	161,715
Vocational	24,171	30,148	0	5,977
Support Services:				
Pupils	3,477,814	2,886,265	118,265	(473,284)
Instructional Staff	4,239,578	1,268,228	2,081,311	(890,039)
Board of Governors	54,958	0	0	(54,958)
Administration	1,346,314	668,834	11,881	(665,599)
Fiscal	406,292	0	106,992	(299,300)
Business	231,929	0	0	(231,929)
Operation and Maintenance of Plant	424,139	87,396	148,383	(188,360)
Central	99,793	103,534	4,844	8,585
Extracurricular Activities	48,396	60,053	0	11,657
Debt Service:				
Interest and Fiscal Charges	27,714	0	0	(27,714)
Total	$ 15,489,169	$ 10,365,383	$ 2,731,692	(2,392,094)

General Revenues	
Grants and Entitlements Not Restricted to Specific Programs	1,061,593
Investment Earnings	1,353
Miscellaneous	26,706
Total General Revenues	1,089,652
Change in Net Position	(1,302,442)
Net Position Beginning of Year	(18,417,583)
Net Position End of Year	$ (19,720,025)

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit County, Ohio
Balance Sheet
Governmental Funds
June 30, 2017

	General	Educational Regional Service System	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	$ 3,842,472	$ 20,201	$ 8,917	$ 3,871,590
Receivables:				
Accounts	19,548	0	0	19,548
Interfund	293,524	0	0	293,524
Intergovernmental	2,738,555	791,240	348,220	3,878,015
Total Assets	$ 6,894,099	$ 811,441	$ 357,137	$ 8,062,677
Liabilities				
Accounts Payable	$ 18,157	$ 22,560	$ 985	$ 41,702
Accrued Wages and Benefits	1,148,436	148,336	32,553	1,329,325
Intergovernmental Payable	205,359	22,225	150,996	378,580
Matured Compensated Absences Payable	7,870	0	0	7,870
Interfund Payable	0	130,518	163,006	293,524
Total Liabilities	1,379,822	323,639	347,540	2,051,001
Deferred Inflows of Resources				
Unavailable Revenue	2,398,858	501,557	19,239	2,919,654
Fund Balances				
Restricted	0	0	8,917	8,917
Assigned	252,890	0	0	252,890
Unassigned	2,862,529	(13,755)	(18,559)	2,830,215
Total Fund Balances	3,115,419	(13,755)	(9,642)	3,092,022
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 6,894,099	$ 811,441	$ 357,137	$ 8,062,677

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2017

Total Governmental Fund Balances		$ 3,092,022
Amounts reported for governmental activities in 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.		1,781,137
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	$ 520,796	
Excess Costs	2,364,332	
Tuition and Fees	1,217	
Charges for Services	33,309	2,919,654
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds.		
Deferred Outflows - Pension	5,873,738	
Deferred Inflows - Pension	(1,762,481)	
Net Pension Liability	(30,719,134)	(26,607,877)
Long-term liabilities, including capital lease obligations payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital Lease Obligation	(612,434)	
Vacations Payable	(144,443)	
Compensated Absences	(148,084)	(904,961)
Net Position of Governmental Activities		$ (19,720,025)

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Educational Regional Service System	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	$ 1,073,482	$ 2,061,148	$ 1,095,724	$ 4,230,354
Investment Income	1,353	0	0	1,353
Tuition and Fees	4,610,805	0	0	4,610,805
Charges for Services	5,870,308	0	0	5,870,308
Contributions and Donations	418	0	0	418
Miscellaneous	26,706	8,537	0	35,243
Total Revenues	11,583,072	2,069,685	1,095,724	14,748,481
Expenditures				
Current:				
Instruction:				
Regular	699,376	0	0	699,376
Special	3,849,621	19,506	218,395	4,087,522
Vocational	20,462	0	0	20,462
Support Services:				
Pupils	3,237,091	6,971	110,100	3,354,162
Instructional Staff	1,724,147	1,620,221	746,158	4,090,526
Board of Governors	54,204	0	0	54,204
Administration	1,224,632	14,490	0	1,239,122
Fiscal	371,809	89,978	32,577	494,364
Business	216,022	0	0	216,022
Operation and Maintenance of Plant	399,789	180,971	0	580,760
Central	85,824	5,908	0	91,732
Extracurricular Activities	42,096	0	0	42,096
Debt Service:				
Principal Retirement	90,521	2,751	0	93,272
Interest and Fiscal Charges	27,149	565	0	27,714
Total Expenditures	12,042,743	1,941,361	1,107,230	15,091,334
Excess of Revenues Over (Under) Expenditures	(459,671)	128,324	(11,506)	(342,853)
Other Financing Sources (Uses)				
Inception of Capital Lease	30,409	0	13,033	43,442
Net Change in Fund Balance	(429,262)	128,324	1,527	(299,411)
Fund Balance (Deficit) Beginning of Year	3,544,681	(142,079)	(11,169)	3,391,433
Fund Balance (Deficit) End of Year	$ 3,115,419	$ (13,755)	$ (9,642)	$ 3,092,022

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit 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		$ (299,411)
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	$ 47,460	
Current Year Depreciation	(60,274)	(12,814)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	(451,385)	
Tuition and Fees	(85,208)	
Excess Costs	326,726	
Charges for Services	(22,432)	(232,299)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		93,272
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		1,339,771
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(2,110,428)
Debt proceeds issued in the governmental funds that increase long-term in the statement of net position are not reported as revenues.		
Capital Lease		(43,442)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(20,831)	
Vacations Payable	(16,260)	(37,091)
Change in Net Position of Governmental Activities		$ (1,302,442)

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	$ 106,612	$ 88,939
Intergovernmental Receivable	0	56,411
Total Assets	106,612	$ 145,350
Liabilities		
Undistributed Monies	0	$ 145,350
Net Position		
Held in Trust for Scholarships	$ 106,612	

See accompanying notes to the basic financial statements.

Summit County Educational Service Center
Summit County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust
Deductions	
Payments in Accordance with Trust Agreements	$ 176
Change in Net Position	(176)
Net Position Beginning of Year	$ 106,788
Net Position End of Year	$ 106,612

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE SERVICE CENTER

The Summit County Educational Service Center (the "Service Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Service Center is a County Educational Service Center as defined by Section 3313.01 of the Ohio Revised Code. The Service Center operates under an elected Board of Governors (5 members). Board members must be residents of the local school systems located in Summit County. The Service Center provides educational services to the local school systems in Summit County as well as nine city school districts, which have a contractual relationship with the Service Center.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Service Center.

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organizations' governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt or the levying of taxes. The Service Center does not have any component units.

During the fiscal year the Service Center is associated with the Metropolitan Regional Service Council (MRSC) also known as Northeast Ohio Network for Educational Technology (NEOnet), which is defined as a jointly governed organization. Representatives from each of the governments that create the organization govern jointly, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding this organization is presented in Note 12.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles.

The most significant of the Service Center's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The effect of interfund activity, within governmental type activities columns has been removed from these statements.

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

Fund Financial Statements

During the fiscal year, the Service Center segregates transactions related to certain Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. The major funds are presented in separate columns. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Service Center are financed. Governmental funds focus 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the Service Center's major governmental funds:

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

Educational Regional Service System Special Revenue Fund This fund is used to account for grant revenues used to support state and regional education initiatives and efforts to improve school effectiveness and student achievement. The state system consists of sixteen regions. The Service Center is the fiscal agent for the State Support Team Region 8 which includes Portage, Medina and Summit Counties.

The other governmental funds of the Service Center account for grants and other resources to which the Service Center is bound to observe constraints imposed upon the use of the resources.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds account for employee benefits and programs managed by school districts served by the Service Center. The private purpose trust fund accounts for assets held by the Service Center in a trustee capacity.

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Private purpose trust funds are reported using the economic resources measurement focus and are excluded from the government-wide financial statements.

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 use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the Service Center 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 Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: interest, tuition, fees, grants, and charges for services.

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Service Center, deferred inflows of resources include pension and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Service Center, unavailable revenue may include intergovernmental grants and tuition and fees and charges for services revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 8).

E. Cash and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through Service Center records. Each fund's interest in the pool is presented as "equity in pooled cash and investments."

During the fiscal year, investments were limited to overnight repurchase agreements. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market price. Nonparticipating investment contracts such as repurchase agreements are reported at cost. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as "equity in pooled cash and investments." Investments with an initial maturity of more than three months that are not purchased from the pool are reported as "investments." The Service Center did not have any of these types of investments at year-end.

F. Capital Assets

All of the Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Service Center maintains a capitalization threshold of $1,000. The Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	*Estimated Lives*
Building and improvements	*50 years*
Furniture and equipment	*3-20 years*
Vehicles	*3-5 years*

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Service Center's termination policy.

H. 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, claims and judgments, compensated absences and net pension liability 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. Long-term capital leases are recognized as a liability on the governmental fund financial statements when due.

I. 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 positon 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.

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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 their use either through the enabling legislation adopted by the Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

K. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the Service Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Service Center Board of Governors. Those committed amounts cannot be used for any other purpose unless the Service Center Board of Governors 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 Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Service Center Board of Governors. The Board of Governors has by resolution authorized the treasurer to assign fund balance.

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

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

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses for governmental funds. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of net position. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented in the financial statements.

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

M. Estimates

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

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in the nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Governors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

O. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2017, the Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and 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 Service Center.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Service Center.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation 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 Service Center.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Service Center's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Governors 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 pass book accounts.

Protection of the Service Center's deposits may be 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 Chief Fiscal Officer 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.

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

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

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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 item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period of 270 days in an amount not to exceed 40% of the interim monies available for investment at any one time; and

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash and deposits is provided by the FDIC, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. The policies of the Service Center do not address custodial credit risk for deposits.

Deposits At fiscal year end, the carrying amount of the Service Center's deposits was $835. Based on criteria described in GASB 40, *Deposits and Investments Risk Disclosure*, as of June 30, 2017, 100% of the bank balance of $98,966 was covered by FDIC.

Interest Rate Risk The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. It is the Service Center's policy to evaluate market conditions, interest rate forecasts, and cash flow requirements to consider the term of an investment, with the goal being to buy where relative value exists along the maturity spectrum.

Custodial Credit Risk For an investment, custodial risk is that risk that, in the event of the failure of the counterparty, the Service Center will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center's investment in a repurchase agreement is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Service Center. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal balance of the securities subject to a repurchase agreement by 2%. The Service Center 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.

Credit Risk The Service Center's only investment during fiscal year 2017 was in an overnight repurchase account, with a fiscal year ending balance of $4,066,306. The Service Center's investments in the federal agency securities that underlie the Service Center's repurchase agreement were rated Aaa by Moody's Investor Services.

Concentration of Credit Risk The Service Center investment policy is to be diversified in it's holdings of investments by avoiding concentrations of specific users. During the year, the Service Center's only investment was in an overnight repurchase account. These investments were secured with pledged collateral, held and in the name of the pledging institution, in which the investments are held.

Interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during fiscal year 2017 amounted to $1,353, which includes $71 assigned from other Service Center funds.

NOTE 4 – RECEIVABLES

Receivables at year-end consisted of intergovernmental (grants and entitlements and charges for services provided to other governments), accounts and interfund. All receivables are considered collectible in full due to the stable condition of state programs, and the current year guarantee of federal funds.

NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$ 207,778	$ 0	$ 0	$ 207,778
Capital Assets, Being Depreciated				
Furniture and equipment	629,334	47,460	0	676,794
Building and improvements	1,854,192	0	0	1,854,192
Vehicles	19,813	0	0	19,813
Total Capital Assets, Being Depreciated	2,503,339	47,460	0	2,550,799
Accumulated Depreciation				
Furniture and equipment	(566,563)	(19,638)	0	(586,201)
Building and improvements	(346,641)	(38,655)	0	(385,296)
Vehicles	(3,962)	(1,981)	0	(5,943)
Total Accumulated Depreciated	(917,166)	(60,274)	0	(977,440)
Total Capital Assets Being Depreciated, Net	1,586,173	(12,814)	0	1,573,359
Governmental Activities, Capital Assets, Net	$ 1,793,951	$ (12,814)	$ 0	$ 1,781,137

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 465
Special	14,625
Support Services:	
Pupils	500
Instructional Staff	3,414
Administration	18,296
Fiscal	200
Business	1,981
Operation and Maintenance of Plant	20,793
Total Depreciation	$ 60,274

NOTE 6 - INTERFUND TRANSACTIONS

Interfund balances consisted of the following at June 30, 2017, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
General fund	$ 293,524	$ 0
Educational Regional Service System	0	130,518
Other governmental funds	0	163,006
	$ 293,524	$ 293,524

As of June 30, 2017, the educational regional service system and other non-major governmental funds reported unencumbered negative cash balances. The amount reported in other governmental funds was made up of $21,071 in the public school preschool grant fund, $132,376 in the Straight A fund and $9,559 in the EHA preschool grant fund. As a result, interfund loans were made by the general fund to eliminate the negative balances. All interfund loans will be repaid in fiscal year 2018 with monies to be received from reimbursable expenditures incurred during fiscal year 2017.

NOTE 7 - RISK MANAGEMENT

The Service Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance coverage nor has insurance coverage been significantly reduced in the past three years. The Service Center is a participant in the Stark County Schools Council of Government ("Council") for the purpose of obtaining benefits at a reduced premium for health care. Mutual Health Services Company and the Aultcare Corporation administer the insurance program for health care. Payments are made to the Council for monthly premiums, monthly stop-loss premiums, and administrative charges. The fiscal agent of the Council is the Stark County Educational Service Center. The fiscal agent pays Mutual Health Services and the Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium, and the administrative charges.

Premium contributions are determined annually based on the claims experience of the individual member. Premiums can be increased or decreased by up to 20 percent of the prior year's contribution. Members may become liable for additional contributions to fund the liability of the pool. In the event of termination, all participating members' claims would be paid without regard to their individual account balances. The Consortium's Board of Directors has authority to return monies to an existing member subsequent to the settlement of all claims and expenses.

The Service Center pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first 30 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 Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The Service Center's contractually required contribution to SERS was $364,408 for fiscal year 2017. Of this amount, $37,712 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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 Service Center 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 Service Center's contractually required contribution to STRS was $975,363 for fiscal year 2017. Of this amount, $115,668 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability was measured as of July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Service Center's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 23,899,679	$ 6,819,455	$ 30,719,134
Proportion of the Net Pension Liability:			
Current Measurement Date	0.07139984%	0.09317370%	
Prior Measurement Date	0.07429441%	0.10762350%	
Change in Proportionate Share	-0.00289457%	-0.01444980%	
Pension Expense	$ 1,304,104	$ 806,324	$ 2,110,428

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Service Center's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 965,660	$ 91,978	$ 1,057,638
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,984,315	562,506	2,546,821
Changes of Assumptions	0	455,236	455,236
Changes in Proportion and Differences between Service Center Contributions and Proportionate Share of Contributions	0	474,272	474,272
Service Center Contributions Subsequent to the Measurement Date	975,363	364,408	1,339,771
Total Deferred Outflows of Resources	$ 3,925,338	$ 1,948,400	$ 5,873,738
Deferred Inflows of Resources			
Changes in Proportion and Differences between Service Center Contributions and Proportionate Share of Contributions	$ 1,195,406	$ 567,075	$ 1,762,481

$1,339,771 reported as deferred outflows of resources related to pension resulting from Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal 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:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$ 123,102	$ 291,872	$ 414,974
2019	123,099	291,463	414,562
2020	884,542	271,883	1,156,425
2021	623,826	161,699	785,525
	$ 1,754,569	$ 1,016,917	$ 2,771,486

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	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average 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 Stocks	22.50	4.75
Non-US Stocks	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 %	

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 earnings 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 Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the Service Center's proportionate share of 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%)
Service Center's Proportionate Share of the Net Pension Liability	$ 9,028,534	$ 6,819,455	$ 4,970,365

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 Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 commences on the fifth anniversary of the 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 no set back from age 90 and above.

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

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent 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 Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Service Center's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Service Center's Proportionate Share of the Net Pension Liability	$ 31,760,731	$ 23,899,679	$ 17,268,418

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

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

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, SERS did not allocate any employer contributions to the Health Care fund. 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 Service Center's surcharge obligation was $37,067.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The Service Center's contributions for health care for the fiscal year ended June 30, 2015, was $83,723. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

Plan Description – The Service Center 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.

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the Service Center did not contribute to health care in the last three fiscal years.

NOTE 10 - LONG TERM OBLIGATIONS

Changes in long-term obligations of the Service Center during the current fiscal year were as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017	Amount Due Within One Year
Governmental Activities:					
Net Pension Liability:					
STRS	$ 20,532,802	$ 3,366,877	$ 0	$ 23,899,679	$ 0
SERS	6,141,101	678,354	0	6,819,455	0
Total Net Pension Liability	26,673,903	4,045,231	0	30,719,134	0
Other Long-Term Obligations:					
Compensated Absences	127,253	35,311	(14,480)	148,084	54,196
Capital Lease	662,264	43,442	(93,272)	612,434	97,901
Total Other Long-Term Obligations	789,517	78,753	(107,752)	760,518	152,097
Total Long Term Obligations	$ 27,463,420	$ 4,123,984	$ (107,752)	$ 31,479,652	$ 152,097

Compensated absences will be paid from the fund in which the employee is paid. In prior years, this fund has primarily been the general fund. Capital leases will be paid from the general fund.

The Service Center pays obligations related to employee compensation from the fund benefitting from their service.

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal years 2008 and 2017, the Service Center entered into lease-purchase agreements for HVAC improvements for heating and cooling and five copiers, respectively. These leases meet the criteria of a capital lease as it transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the governmental funds. Capital assets acquired by lease have been capitalized in the amount of $1,274,300; this amount is equal to the present value of the future minimum lease payments at the time of acquisition in the government-wide financial statements. Accumulated depreciation was $240,040 as of June 30, 2017, leaving a current book value of $1,034,260.

Principal payments in the current fiscal year totaled $93,272. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2017:

Year	Amount
2018	$ 121,990
2019	121,990
2020	121,990
2021	110,937
2022	109,932
2023	109,931
Total lease payments	696,770
Less amount representing interest	(84,336)
Present value of minimum lease payments	$ 612,434

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Regional Service Council (MRSC)

MRSC is also known as Northeast Ohio Network for Educational Technology (NEOnet), which is the name used exclusively prior to their reorganization from a consortium to a council of governments. MRSC is the computer service organization or Data Acquisition Site (DAS) used by the Service Center. MRSC is an association of public districts in a geographic area determined by the Ohio Department of Education. The purpose of MRSC is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in MRSC are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating Service Centers governs MRSC. An elected Executive Board consisting of nine members of the governing board is the managerial body of the MRSC and meets on a monthly basis.

The Service Center does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to MRSC are made from the general fund. During the current fiscal year the Service Center made $85,375 in contributions to MRSC.

NOTE 13 – CONTINGENCIES

A. Grants

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2017, if applicable, cannot be determined at this time.

B. Litigation

The Service Center is a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Service Center's financial statements.

C. School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. The results of the final FTE adjustments did not have a material impact on the Service Center's financial statements.

NOTE 14 – FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General	Educational Regional Service System	Other Governmental Funds	Total
Restricted for:				
Local Grants	$ 0	$ 0	$ 6,004	$ 6,004
Federal Grants	0	0	2,913	2,913
Total Restricted	0	0	8,917	8,917
Assigned for:				
Encumbrances:				
Instructional	15,216	0	0	15,216
Support Services	230,062	0	0	230,062
Other Purposes:				
Public School Support	7,612	0	0	7,612
Total Assigned	252,890	0	0	252,890
Unassigned (Deficit)	2,862,529	(13,755)	(18,559)	2,830,215
Total Fund Balance	$ 3,115,419	$ (13,755)	$ (9,642)	$ 3,092,022

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

	Fund Balance
Public School Preschool	$ 13,547
IDEA Preschool	5,012
Educational Regional Service System	13,755

The deficits in these funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the non-major governmental funds and will provide transfers when cash is required, not when accruals occur.

NOTE 15 – ENCUMBRANCE COMMITMENTS

The Service Center 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 fiscal year-end, the Service Center commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General	$ 245,278
Educational Regional Service System	59,276
Other Governmental Funds	6,407
	$ 310,961

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Summit County Educational Service Center
Summit County, Ohio
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years (1)

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Service Center's Proportion of the Net Pension Liability	0.07139984%	0.07429441%	0.07745062%	0.07745062%
Service Center's Proportionate Share of the Net Pension Liability	$ 23,899,679	$ 20,532,802	$ 18,838,671	$ 22,440,502
Service Center's Covered Payroll	$ 7,537,886	$ 7,722,300	$ 8,035,138	$ 8,790,177
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	317.06%	265.89%	234.45%	255.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
Service Center's Proportion of the Net Pension Liability	0.09317370%	0.10762350%	0.09187500%	0.09187500%
Service Center's Proportionate Share of the Net Pension Liability	$ 6,819,455	$ 6,141,101	$ 4,649,741	$ 5,463,511
Service Center's Covered Payroll	$ 3,289,957	$ 3,606,548	$ 3,131,494	$ 3,476,590
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	207.28%	170.28%	148.48%	157.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

Summit County Educational Service Center
Summit County, Ohio
Required Supplementary Information
Schedule of Service Center Contributions
Last Ten Fiscal Years

	2017	2016	2015	2014
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 975,363	$ 1,055,304	$ 1,081,122	$ 1,044,568
Contributions in Relation to the Contractually Required Contribution	(975,363)	(1,055,304)	(1,081,122)	(1,044,568)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Service Center's Covered Payroll	$ 6,966,879	$ 7,537,886	$ 7,722,300	$ 8,035,138
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 364,408	$ 460,594	$ 475,343	$ 434,025
Contributions in Relation to the Contractually Required Contribution	(364,408)	(460,594)	(475,343)	(434,025)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Service Center's Covered Payroll	$ 2,602,914	$ 3,289,957	$ 3,606,548	$ 3,131,494
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
$ 1,142,723	$ 1,051,143	$ 907,188	$ 859,095	$ 826,826	$ 711,627
(1,142,723)	(1,051,143)	(907,188)	(859,095)	(826,826)	(711,627)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 8,790,177	$ 8,085,715	$ 6,978,369	$ 6,608,423	$ 6,360,200	$ 5,474,054
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$ 481,160	$ 403,426	$ 339,732	$ 663,952	$ 469,137	n/a
(481,160)	(403,426)	(339,732)	(663,952)	(469,137)	n/a
$ 0	$ 0	$ 0	$ 0	$ 0	n/a
$ 3,476,590	$ 2,999,450	$ 2,702,721	$ 4,903,634	$ 4,767,652	n/a
13.84%	13.45%	12.57%	13.54%	9.84%	n/a

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SUMMIT COUNTY EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR ***Pass Through Grantor*** Program / Cluster Title	Federal CFDA Number	Grant Year	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education				
Special Education Cluster:				
Special Education Grants to States	84.027	2017	$1,172,324	$ 1,297,540
Special Education Grants to States	84.027	2016	386,918	275,660
Total Special Education Cluster - Grants to States			1,559,242	1,573,200
Special Education Preschool Grants - ELD Grant	84.173	2017	34,270	38,170
Special Education Preschool Grants - ELD Grant	84.173	2016	6,117	263
Special Education Preschool Grants - Pre K SE	84.173	2017	105,648	115,206
Special Education Preschool Grants - Pre K SE	84.173	2016	24,928	14,104
Total Special Education Cluster - Preschool Grants			170,963	167,743
Total Special Education Cluster			1,730,205	1,740,943
Special Education - State Personnel Development	84.323	2016	16,241	12,975
Total Special Education - State Personnel Development			16,241	12,975
ARRA-Race to the Top-Early Learning Challenge	84.412	2016	34,504	25,439
ARRA-Race to the Top-Early Learning Challenge	84.412	2016	-	630
Total ARRA-Race to the Top-Early Learning Challenge			34,504	26,069
Total U.S. Department of Education			1,780,951	1,779,987
Total Federal Financial Assistance			$1,780,951	$1,779,987

The accompanying notes are an integral part of this schedule.

SUMMIT COUNTY EDUCATION SERVICE CENTER
SUMMIT COUNTY

NOTES TO THE SCHEDULE OF RECEIPTS AND 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 Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Summit County Educational Service Center (the Service Center's) 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 Service Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Service Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The Service Center transferred the following amounts from 2017 to 2018 programs:

Program Title	CFDA Number	Amt. Transferred
Special Education - Grants to States	84.027	$ 384,921
Early Learning Discretionary	84.173	$ 7,034

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

Summit County Educational Service Center
Summit County
420 Washington Ave. Suite 200
Cuyahoga Falls, OH 44221

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Summit County Educational Service Center, Summit County, (the Service Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated January 26, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider material weaknesses. We consider findings 2017-001 through 2017-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Service Center's Response to Findings

The Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Service Center's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

January 26, 2018

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

Summit County Educational Service Center
Summit County
420 Washington Ave. Suite 200
Cuyahoga Falls, OH 44221

To the Governing Board:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001
www.ohioauditor.gov

Opinion on the Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2017-003. Our opinion on *the* major federal program is not modified with respect to these matters.

The Service Center's response to our noncompliance finding is described in the accompanying schedule of findings and/or corrective action plan. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified 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, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2017-003.

The Service Center's response to our internal control over compliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

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

Dave Yost
Auditor of State
Columbus, Ohio

January 26, 2018

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SUMMIT COUNTY EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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)?**	Yes
(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 internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	Yes
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR §200.516(a)?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster: Special Education Grants to States – CFDA #84.027 Special Education Preschool Grants – CFDA #84.173
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	$ 750,000
(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

1. **Intergovernmental Receivable**

Finding Number	2017-001

MATERIAL WEAKNESS

Sound financial reporting is the responsibility of Service Center Management and is essential to help ensure the information provided to the readers of the financial statements is complete and accurate.

The Service Center contracts with an accounting firm (conversion team) to prepare its annual Generally Accepted Accounting Principle (GAAP) financial statements. Due to the lack of final review of the GAAP working papers and financial statements by the Service Center, the following discrepancies were noted during testing of the Intergovernmental Receivables:

- The Governmental Funds Balance Sheet Intergovernmental Receivables and Unavailable Revenue were overstated by $601,184 within the General Fund opinion unit due to recording the Total Cost instead of the Total Due on the Preschool Excess Cost Invoices.
- The Statement of Fiduciary Net Position Intergovernmental Receivables and Undistributed Monies were overstated by $65,408 within the Agency Fund due to recording the receivable twice.

The financial statements were subsequently adjusted to properly report these balances.

The Service Center should perform a final review of the intergovernmental receivable working papers and the financial statements to ensure complete and accurate amounts are reported.

Official's Response: See Corrective Action Plan on Page 65

2. **Miscellaneous State Grant Fund Reporting**

Finding Number	2017-002

MATERIAL WEAKNESS

Sound financial reporting is the responsibility of the Chief Fiscal Officer and the Board of Governors, and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The Service Center's annual financial statements erroneously reported the Miscellaneous State Grant Fund activity as Other Governmental Funds (OGF) opinion unit instead of the Educational Regional Service System Fund (ERSSF) opinion unit. Due to the erroneous rollup of Miscellaneous State Grant Fund to the OFI opinion unit and due to the lack of a final review of the statements, the OGF opinion unit was overstated and ERSSF opinion unit was understated which affected he year-end fund balance by 16 % and 10%, respectively, within the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

The financial statements were subsequently adjusted to properly reflect the activity.

In order to help ensure the Service Center's financial statements are complete and accurate, the Service Center should adopt policies and procedures, including a final review of the statements by the Chief Fiscal Officer, to identify and correct errors and omissions.

Official's Response: See Corrective Action Plan on Page 65

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Uniform Guidance - Period of Performance

Finding Number	2017-003		
CFDA Title and Number	Special Education Cluster: Special Education Grants to States – CFDA #84.027 Special Education Preschool Grants – CFDA #84.173		
Federal Award Identification Number / Year	2017 2016		
Federal Agency	U.S. Department of Education		
Compliance Requirement	Period of Performance		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	**Finding Number? (if repeat)**	N/A

QUESTIONED COST, NONCOMPLIANCE, AND SIGNIFICANT DEFICIENCY

2 CFR § 200.309 states a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in § 200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.

The Service Center improperly requested money from the 2016 Special Education (a.k.a. IDEA B) Grant budget for payroll expenditures related to the 2017 IDEA B Grant budget in the amount of $8,857. This projects to a question cost in excess of $25,000.

Requesting money for expenditures not related to the proper grant period could lead to a repayment of the grant money and improper budgeting by the Service Center.

The Service Center should only request money for cost incurred for the related grant and the grant's available period.

Official's Response: See Corrective Action Plan on Page 65

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Summit County
Educational Service Center

420 Washington Ave.
Suite 200
Cuyahoga Falls, Ohio 44221
Phone 330-945-5600
FAX 330-945-6222

January 22, 2018

Karol Petro
Senior Audit Manager

Dear Karol,

I am submitting the following correction action plan for the findings related to the FY17 financial statements and for the findings and questioned costs for federal awards.

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
FY 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The service center Treasurer will perform a final review of the intergovernmental receivable working papers and the financial statement to ensure complete and accurate reporting	Procdures will be implemented with the next fiscal audit (FY 18)	Treasurer
2017-002	The service center Treasurer will perform a final review of the GAAP financial statements to ensure complete and accurate reporting	Procedures will be implemented with next fiscal audit (FY 18)	Treasurer
017-003	All Project Cash Request will be reviewed carefully by the Treasurer to ensure that funds are only be requested for cost incurred for the related grant period.	Immediately	Treasurer

Should you have any questions, please contact me at 330-926-3911.

Sincerely,

Deanna Levenger

Deanna Levenger
Interim Treasurer
Summit ESC

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SUMMIT COUNTY EDUCATIONAL SERVICE CENTER

SUMMIT 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
FEBRUARY 13, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
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