



Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY
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CUYAHOGA COUNTY
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INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Cuyahoga County
Cuyahoga County
6393 Oak Tree Boulevard
Independence, Ohio 44131

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2015, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, Ohio, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Service Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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 Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget (Non-GAAP basis) and Actual present additional analysis and are not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2016, 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.

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

Dave Yost
Auditor of State
Columbus, Ohio

February 17, 2016

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Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited*

The management's discussion and analysis of the Educational Service Center of Cuyahoga County's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2015. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 include:

- In fiscal year 2015 total assets decreased by \$1,113,647 due to a decrease in cash and cash equivalents. Also, total liabilities decreased by \$16,509,756. The decrease in liabilities is due to the Service Center paying down on their long-term obligations.
- Total revenues increased by \$2,650,123 in fiscal year 2015 versus 2014, mainly due to an increase in the number of districts participating in the substitute teacher program. Total expenses decreased by \$1,999,342 due to the Service Center's renovation of the administration building in fiscal year 2014.

Using this Annual Financial Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole 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 title VI-B special revenue fund are the most significant funds.

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all the funds used by the Service Center to provide services, the view of the Service Center as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why?" or "Why not?". The *Statement of Net Position* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all non-fiduciary assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

These two statements report the Service Center's *net position* and any changes in the net position. The change in net position is important because it tells the readers 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.

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

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 15. 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, the fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and the title VI-B special revenue 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.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Service Center's programs. These funds use the accrual basis of accounting.

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

The Service Center as a Whole

You may 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 fiscal year 2015 compared to fiscal year 2014:

(Table 1)
Net Position

	Governmental Activities		Change
	2015	2014	
Assets			
Current and Other Assets	\$19,973,049	\$21,888,970	(\$1,915,921)
Capital Assets, Net	10,748,199	9,945,925	802,274
<i>Total Assets</i>	<u>30,721,248</u>	<u>31,834,895</u>	<u>(1,113,647)</u>
Deferred Outflows of Resources			
Pension	7,092,661	5,495,839	(1,596,822)
Liabilities			
Current and Other Liabilities	4,526,879	4,644,181	117,302
Long-Term Liabilities:			
Due Within One Year	1,475,647	1,716,732	241,085
Due in More than One Year:			
Net Pension Liability	87,416,674	103,642,083	16,225,409
Other Amounts Due in More than One Year	2,608,519	2,534,479	(74,040)
<i>Total Liabilities</i>	<u>96,027,719</u>	<u>112,537,475</u>	<u>16,509,756</u>
Deferred Inflows of Resources			
Pension	15,487,593	0	(15,487,593)
Net Position			
Net Investment in Capital Assets	8,241,537	7,593,524	648,013
Restricted	1,768,635	1,271,463	497,172
Unrestricted	(83,711,575)	(84,071,728)	360,153
<i>Total Net Position</i>	<u>(\$73,701,403)</u>	<u>(\$75,206,741)</u>	<u>\$1,505,338</u>

During 2015, 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 that follow, 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.

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the 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 *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.

As a result of implementing GASB 68, the Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$22,939,503 to (\$75,206,741).

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

Overall, net position increased from fiscal year 2014. This increase is mainly attributed to an increase in capital assets and a decrease in liabilities. The decrease in liabilities is a result of the Service Center paying down another year of their long-term obligations. Table 2 shows the change in net position for fiscal year 2015 as compared to fiscal year 2014.

(Table 2)
Change in Net Position
Governmental Activities

	2015	2014	Change
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$54,541,069	\$49,339,509	\$5,201,560
Operating Grants and Contributions	11,884,304	13,489,395	(1,605,091)
<i>Total Program Revenues</i>	<u>66,425,373</u>	<u>62,828,904</u>	<u>3,596,469</u>
<i>General Revenues:</i>			
Grants and Entitlements	3,689,468	4,014,155	(324,687)
Investment Earnings	36,613	30,207	6,406
Unrestricted Contributions and Donations	2,696	48,424	(45,728)
Miscellaneous	2,338,653	2,920,990	(582,337)
<i>Total General Revenues</i>	<u>6,067,430</u>	<u>7,013,776</u>	<u>(946,346)</u>
Total Revenues	<u>72,492,803</u>	<u>69,842,680</u>	<u>2,650,123</u>
Program Expenses			
Instruction	37,561,807	36,917,354	(644,453)
<i>Support Services:</i>			
Pupil and Instructional Staff	12,713,777	13,996,819	1,283,042
Board of Education, Administration, Fiscal and Business	14,292,002	14,310,888	18,886
Operation and Maintenance of Plant	2,150,402	4,424,664	2,274,262
Pupil Transportation	31,299	27,500	(3,799)
Central	1,415,498	450,885	(964,613)
Operation of Non-Instructional Services	2,744,139	2,732,195	(11,944)
Extracurricular Activities	7,514	58,255	50,741
Interest and Fiscal Charges	71,027	68,247	(2,780)
<i>Total Program Expenses</i>	<u>70,987,465</u>	<u>72,986,807</u>	<u>1,999,342</u>
Special Item - Sale of Buildings	<u>0</u>	<u>1,064,403</u>	<u>(1,064,403)</u>
Increase (Decrease) in Net Position	1,505,338	(2,079,724)	1,505,338
<i>Net Position Beginning of Year</i>	<u>(75,206,741)</u>	N/A	
<i>Net Position End of Year</i>	<u>(\$73,701,403)</u>	<u>(\$75,206,741)</u>	<u>\$1,505,338</u>

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$5,495,839 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$3,950,118. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Educational Service Center of Cuyahoga County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

Total 2015 program expenses under GASB 68	\$70,987,465
Pension expense under GASB 68	(3,950,118)
2015 contractually required contribution	<u>6,284,756</u>
Adjusted 2015 program expenses	73,322,103
Total 2014 program expenses under GASB 27	<u>(72,986,807)</u>
Increase in program expenses not related to pension	<u>\$335,296</u>

Governmental Activities

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Service Center's concept of bringing its fiscal agencies under a common campus to align services, share resources and create economies of scale does work. A willingness to honestly assess programs and discontinue unprofitable ones is key to long-term operations. Flexibility and adherence to basic management principles is key to continued successful operations.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The (\$4,562,092) *Net Cost of Services 2015* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net position to operate this fiscal year.

(Table 3)
Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
Instruction	\$37,561,807	\$8,114,441	\$36,917,354	\$5,005,141
Support Services:				
Pupil and Instructional Staff	12,713,777	2,121,627	13,996,819	(597,010)
Board of Education, Administration, Fiscal and Business	14,292,002	(14,292,002)	14,310,888	(14,310,888)
Operation and Maintenance of Plant	2,150,402	(343,154)	4,424,664	(2,887,395)
Pupil Transportation	31,299	(17,598)	27,500	(17,015)
Central	1,415,498	(922,612)	450,885	(359,859)
Operation of Non-Instructional Services	2,744,139	848,859	2,732,195	3,090,615
Extracurricular Activities	7,514	(626)	58,255	(13,245)
Interest and Fiscal Charges	71,027	(71,027)	68,247	(68,247)
<i>Totals</i>	<u>\$70,987,465</u>	<u>(\$4,562,092)</u>	<u>\$72,986,807</u>	<u>(\$10,157,903)</u>

The Service Center's Funds

Information about the Service Center's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$71,318,216 and total expenditures of \$75,036,346, leaving a fund balance at fiscal year-end of \$10,615,651.

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited*

The general fund had a decrease in fund balance of \$2,585,515. This is largely due to an increase in expenses due to additional teachers and administrators being paid by the Service Center. The title VI-B special revenue fund had decrease in fund balance of \$59,961 due to the timing of grant revenue from the Ohio Department of Education. In comparison, all funds decreased a total of \$3,341,073.

The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The downside to such a philosophy is that the Service Center will be an early barometer to cutbacks and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second-guessing the best management approach to riding out the downturn.

Capital Assets

Table 4 shows fiscal year 2015 balances compared to fiscal year 2014. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	Governmental Activities	
	2015	2014
Land	\$549,004	\$146,778
Buildings and Improvements	9,719,713	9,439,106
Furniture and Equipment	479,482	360,041
<i>Total Capital Assets</i>	<u>\$10,748,199</u>	<u>\$9,945,925</u>

The increase in capital assets is mainly due to the expansion of the parking lot and renovation of office space at the administration building.

Debt

Table 5 shows fiscal year 2015 balances compared to fiscal year 2014. More detailed information is presented in Notes 13 and 14 of the notes to the basic financial statements.

(Table 5)
Outstanding Debt at June 30

	2015	2014
Certificates of Participation	\$2,440,000	\$2,380,000
Capital Leases	66,662	4,450
<i>Total Outstanding Debt</i>	<u>\$2,506,662</u>	<u>\$2,384,450</u>

The Service Center entered into a new lease for copiers in fiscal year 2015. The Service Center also issued Certificates of Participation in the amount of \$300,000 in fiscal year 2015 for the expansion of the parking lot at the administration building.

Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited*

Current Financial Related Activities

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and administration closely monitor its revenues and expenditures in accordance with Board policy.

Fiscal year 2015 was a good year from a service delivery standpoint although financially the Service Center suffered a deficit. The Service Center delivered valuable programs to its clients and school districts. Preserving school district relations is as critical as the finances.

Beginning July 1, 2015, the Service Center expanded its service footprint from thirty-one school districts located in Cuyahoga County to include an additional thirteen school districts located in Geauga, Lake, Portage and Summit counties. As part of this expansion the Service Center has also begun to expand several of its key service and program areas, including personnel, substitute management, professional development, professional learning networks and technology.

While many outside factors can and will affect the economy and base operations, the Service Center is committed to provide the best possible services and be fiscally responsible now and in future years. The Service Center is constantly evaluating its programs and expanding where it can provide cost effective services to school districts. Cost effective services to districts is the Service Center's guiding mission. If the Service Center does not provide efficiency, there is no reason for a district to contract with the Service Center. Trust, flexibility and responsiveness are key to the Service Center's success.

Contacting the Service Center's Financial Management

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the 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 Bruce Basalla, Treasurer at the Service Center, 6393 Oak Tree Boulevard., Independence, Ohio 44131.

Educational Service Center of Cuyahoga County

Statement of Net Position

June 30, 2015

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$15,180,287
Accrued Interest Receivable	5,836
Accounts Receivable	529,045
Intergovernmental Receivable	4,257,881
Nondepreciable Capital Assets	549,004
Depreciable Capital Assets, Net	<u>10,199,195</u>
<i>Total Assets</i>	<u>30,721,248</u>
Deferred Outflows of Resources	
Pension	<u>7,092,661</u>
Liabilities	
Accounts Payable	224,011
Accrued Wages and Benefits	3,549,693
Intergovernmental Payable	747,460
Accrued Interest Payable	5,715
Long-Term Liabilities:	
Due Within One Year	1,475,647
Due In More Than One Year:	
Net Pension Liability (See Note 18)	87,416,674
Other Amounts Due in More Than One Year	<u>2,608,519</u>
<i>Total Liabilities</i>	<u>96,027,719</u>
Deferred Inflows of Resources	
Pension	<u>15,487,593</u>
Net Position	
Net Investment in Capital Assets	8,241,537
Restricted for:	
Capital Outlay	64,087
Unclaimed Monies	126,630
Other Purposes	1,577,918
Unrestricted (Deficit)	<u>(83,711,575)</u>
<i>Total Net Position</i>	<u><u>(\$73,701,403)</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Activities

For the Fiscal Year Ended June 30, 2015

	Program Revenues			Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$8,490,391	\$7,466,535	\$140,995	(\$882,861)
Special	28,610,212	36,717,612	905,161	9,012,561
Vocational	443,393	445,945	0	2,552
Student Intervention Services	17,811	0	0	(17,811)
Support Services:				
Pupil	7,246,307	5,219,636	2,795,264	768,593
Instructional Staff	5,467,470	2,349,423	4,471,081	1,353,034
Board of Education	67,196	0	0	(67,196)
Administration	12,865,123	0	0	(12,865,123)
Fiscal	1,295,031	0	0	(1,295,031)
Business	64,652	0	0	(64,652)
Operation and Maintenance of Plant	2,150,402	1,807,248	0	(343,154)
Pupil Transportation	31,299	13,701	0	(17,598)
Central	1,415,498	492,886	0	(922,612)
Operation of Non-Instructional Services	2,744,139	21,195	3,571,803	848,859
Extracurricular Activities	7,514	6,888	0	(626)
Interest and Fiscal Charges	71,027	0	0	(71,027)
Totals	\$70,987,465	\$54,541,069	\$11,884,304	(4,562,092)
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				3,689,468
Investment Earnings				36,613
Unrestricted Contributions and Donations				2,696
Miscellaneous				2,338,653
<i>Total General Revenues</i>				<u>6,067,430</u>
Change in Net Position				1,505,338
<i>Net Position Beginning of Year - Restated (See Note 3)</i>				<u>(75,206,741)</u>
<i>Net Position End of Year</i>				<u><u>(\$73,701,403)</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

*Balance Sheet
Governmental Funds
June 30, 2015*

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$10,696,592	\$356,228	\$1,399,746	\$12,452,566
Accrued Interest Receivable	5,836	0	0	5,836
Accounts Receivable	529,045	0	0	529,045
Intergovernmental Receivable	2,103,183	831,417	1,323,281	4,257,881
Interfund Receivable	1,760,000	0	0	1,760,000
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	126,630	0	0	126,630
<i>Total Assets</i>	<u>\$15,221,286</u>	<u>\$1,187,645</u>	<u>\$2,723,027</u>	<u>\$19,131,958</u>
Liabilities				
Accounts Payable	\$150,464	\$25,040	\$48,507	\$224,011
Accrued Wages and Benefits	3,268,496	171,802	109,395	3,549,693
Intergovernmental Payable	638,390	35,454	73,616	747,460
Interfund Payable	0	256,000	1,504,000	1,760,000
<i>Total Liabilities</i>	<u>4,057,350</u>	<u>488,296</u>	<u>1,735,518</u>	<u>6,281,164</u>
Deferred Inflows of Resources				
Unavailable Revenues	363,103	831,417	1,040,623	2,235,143
Fund Balances				
Nonspendable	126,630	0	0	126,630
Restricted	0	0	188,250	188,250
Assigned	3,740,874	0	0	3,740,874
Unassigned (Deficit)	6,933,329	(132,068)	(241,364)	6,559,897
<i>Total Fund Balances (Deficit)</i>	<u>10,800,833</u>	<u>(132,068)</u>	<u>(53,114)</u>	<u>10,615,651</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$15,221,286</u>	<u>\$1,187,645</u>	<u>\$2,723,027</u>	<u>\$19,131,958</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2015*

Total Governmental Fund Balances	\$10,615,651
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,748,199
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Intergovernmental	1,862,864
Tuition and Fees	173,446
Rentals	125
Charges for Services	189,532
Miscellaneous	9,176
Total	2,235,143
The internal service fund is used by management to charge the costs of medical insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position:	
Net Position	2,266,091
Claims Payable	335,000
Total	2,601,091
In the statement of net position, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,715)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Certificates of Participation	(2,440,000)
Claims Payable	(335,000)
Capital Leases	(66,662)
Compensated Absences	(1,242,504)
Total	(4,084,166)
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 governmental funds:	
Deferred Outflows - Pension	7,092,661
Net Pension Liability	(87,416,674)
Deferred Inflows - Pension	(15,487,593)
Total	(95,811,606)
<i>Net Position of Governmental Activities</i>	(\$73,701,403)

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$4,068,785	\$2,499,697	\$7,157,793	\$13,726,275
Interest	36,613	0	0	36,613
Tuition and Fees	31,232,964	0	0	31,232,964
Rentals	1,044,877	0	0	1,044,877
Charges for Services	22,323,313	0	0	22,323,313
Extracurricular Activities	25	0	0	25
Contributions and Donations	2,696	0	612,800	615,496
Miscellaneous	1,070,628	0	1,268,025	2,338,653
<i>Total Revenues</i>	<u>59,779,901</u>	<u>2,499,697</u>	<u>9,038,618</u>	<u>71,318,216</u>
Expenditures				
Current:				
Instruction:				
Regular	8,381,340	0	109,373	8,490,713
Special	30,040,384	268,846	86,610	30,395,840
Vocational	494,427	0	0	494,427
Student Intervention Services	0	0	17,811	17,811
Support Services:				
Pupil	5,569,479	103,379	2,055,568	7,728,426
Instructional Staff	2,614,336	1,409,056	1,718,049	5,741,441
Board of Education	67,973	0	0	67,973
Administration	11,380,355	393,973	1,913,263	13,687,591
Fiscal	1,191,135	37,752	76,744	1,305,631
Business	65,562	0	16	65,578
Operation and Maintenance of Plant	2,005,200	91,332	16,063	2,112,595
Pupil Transportation	15,405	0	15,894	31,299
Central	545,327	0	860,268	1,405,595
Operation of Non-Instructional Services	23,831	272,152	2,467,766	2,763,749
Extracurricular Activities	14,104	0	0	14,104
Capital Outlay	0	0	387,962	387,962
Debt Service:				
Principal Retirement	10,644	4,201	240,000	254,845
Interest and Fiscal Charges	1,395	543	68,828	70,766
<i>Total Expenditures</i>	<u>62,420,897</u>	<u>2,581,234</u>	<u>10,034,215</u>	<u>75,036,346</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,640,996)</u>	<u>(81,537)</u>	<u>(995,597)</u>	<u>(3,718,130)</u>
Other Financing Sources				
Certificates of Participation Issued	0	0	300,000	300,000
Inception of Capital Lease	55,481	21,576	0	77,057
<i>Total Other Financing Sources</i>	<u>55,481</u>	<u>21,576</u>	<u>300,000</u>	<u>377,057</u>
<i>Net Change in Fund Balances</i>	<u>(2,585,515)</u>	<u>(59,961)</u>	<u>(695,597)</u>	<u>(3,341,073)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>13,386,348</u>	<u>(72,107)</u>	<u>642,483</u>	<u>13,956,724</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$10,800,833</u>	<u>(\$132,068)</u>	<u>(\$53,114)</u>	<u>\$10,615,651</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County
*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, 2015*

Net Change in Fund Balances - Total Governmental Funds (\$3,341,073)

*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 are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Asset Additions	1,080,683	
Current Year Depreciation	(266,150)	
Total		814,533

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (12,259)

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

Intergovernmental	1,234,697	
Tuition and Fees	(162,675)	
Rentals	5	
Charges for Services	102,560	
Miscellaneous	9,176	
Total		1,183,763

Other financing sources in the governmental funds that increases long-term liabilities in the statement of net position are not reported as revenues in the statement of activities:

Certificates of Participation	(300,000)	
Capital Lease	(77,057)	
Total		(377,057)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 254,845

In the governmental funds, interest is expensed when due, whereas interest is accrued in the statement of net position and is not reported as an expense in the statement of activities. (261)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 216,257

The internal service fund used by management is not reported in the Service Center statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 431,952

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 6,284,756

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (3,950,118)

Change in Net Position of Governmental Activities \$1,505,338

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Fund Net Position

Internal Service Fund

June 30, 2015

Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,601,091
Liabilities	
Claims Payable	<u>335,000</u>
Net Position	
Unrestricted	<u>\$2,266,091</u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Revenues,

Expenses and Changes in Fund Net Position

Internal Service Fund

For the Fiscal Year Ended June 30, 2015

Operating Revenues	
Charges for Services	\$5,618,980
	<hr/>
Operating Expenses	
Purchased Services	785,652
Claims	4,401,376
	<hr/>
<i>Total Operating Expenses</i>	<i>5,187,028</i>
	<hr/>
<i>Change in Net Position</i>	<i>431,952</i>
	<hr/>
<i>Net Position Beginning of Year</i>	<i>1,834,139</i>
	<hr/>
<i>Net Position End of Year</i>	<i>\$2,266,091</i>
	<hr/> <hr/>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2015

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Interfund Services Provided	\$5,618,980
Cash Payments for Claims	(4,474,376)
Cash Payments for Services	(789,773)
	<hr/>

Net Increase in Cash and Cash Equivalents 354,831

Cash and Cash Equivalents Beginning of Year

2,246,260

Cash and Cash Equivalents End of Year

\$2,601,091

***Reconciliation of Operating Income to
Net Cash Provided by Operating Activities***

Operating Income \$431,952

Adjustments

Decrease in Current Liabilities	
Accounts Payable	(4,121)
Claims Payable	(73,000)
	<hr/>

Total Adjustments

(77,121)

Net Cash Provided by Operating Activities

\$354,831

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2015

Assets	
Equity in Pooled Cash and Cash Equivalents	\$620,530
Intergovernmental Receivable	<u>32,912</u>
<i>Total Assets</i>	<u><u>\$653,442</u></u>
Liabilities	
Accounts Payable	\$33,425
Undistributed Monies	<u>620,017</u>
<i>Total Liabilities</i>	<u><u>\$653,442</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 1 – Description of the Service Center

In 1914, the Educational Service Center of Cuyahoga County (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts in Cuyahoga, Lake, Lorain and Geauga Counties.

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, to three local and twenty-seven city school districts and two career centers. The Board controls the Service Center's staff who provide services that impact 347,000 to 351,000 students 0 to 18 years of age attending numerous school districts. The Service Center's special education services also draw students from school districts throughout northeast Ohio, sometimes from as far away as Toledo and Columbus.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Service Center. For the Service Center, this includes the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of 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 organization's 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 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 and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Service Center has no component units.

The Service Center participates in three jointly governed organizations. These organizations are the North Coast Council, North Coast Educational Media Center, and the Positive Education Program. These organizations are presented in Note 15 in the notes to the basic financial statements.

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 body for establishing governmental accounting and financial reporting principles. The more significant of the Service Center's accounting policies are described as follows.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

Basis of Presentation

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

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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Service Center, however, has only governmental activities.

The statement of net position presents the financial condition of the governmental activities of the Service Center at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

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

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

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Title VI-B Fund The title VI-B special revenue fund accounts for and reports restricted Federal grant monies used to assist schools in the identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

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

Proprietary Fund Type Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The Service Center only has one internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost-reimbursement basis. The internal service fund accounts for payments, administrative costs and reserves of the Service Center's self-insured medical coverage.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 report resources that belong to other organizations.

Measurement Focus

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The statement of cash flows provides information about how the Service Center finances and meets the cash flow needs of its internal service fund.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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. Proprietary and fiduciary funds use the accrual basis of accounting. Differences between the accrual and the 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. 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 fiscal year end.

Nonexchange transactions, in which the Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: intergovernmental, interest, tuition and fees, rentals, charges for services, extracurricular activities and contributions and donations.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. 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 18.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Service Center, deferred inflows of resources include unavailable revenue and pension. 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 includes intergovernmental, tuition and fees, rentals, charges for services and miscellaneous 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 18).

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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

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

Cash and Cash Equivalents

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

During fiscal year 2015, investments were limited to federal home loan mortgage corporation notes, federal farm credit bank bonds, federal national mortgage association notes and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price or current share.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold at June 30, 2015.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$36,613, which includes \$5,163 assigned from other Service Center 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 cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

Restricted Assets

Assets are reported as restricted when limitations on the use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or law of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund represent money required by State statute to be set aside for unclaimed monies.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Service Center maintains a capitalization threshold of five hundred dollars. 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.

All capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years

Interfund Balances

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

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 when 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. The Service Center records a liability for accumulated unused sick leave for classified, certified and administrative employees after ten years of current service with the Service Center.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

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 judgements, 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 the payment during the current fiscal year.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes the Refugee Children School Impact, professional development and development of procedural safeguards.

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

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form or are 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.

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the 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 includes the remaining amount that is not restricted or committed. These assigned balances are established by the Service Center Governing Board. In the general fund, assigned amounts represent intended uses established by policies and authorized purchase commitments by the Service Center Governing Board or Service Center official delegated that authority by resolution or by State Statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Governing Board assigned fund balance for the positive education programs.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

The 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.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

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.

Note 3 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Service Center implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net Position June 30, 2014	\$22,939,503
Adjustments:	
Net Pension Liability	(103,642,083)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>5,495,839</u>
Restate Net Position June 30, 2014	<u><u>(\$75,206,741)</u></u>

Other than employer contributions subsequent to the measurement date, the Service Center made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Note 4 - Fund Balances

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Fund Balances	General	Title VI-B	Other Governmental Funds	Total
<i>Nonspendable</i>				
Unclaimed Monies	\$126,630	\$0	\$0	\$126,630
<i>Restricted for</i>				
Help Me Grow	0	0	99,554	99,554
Technology Improvements	0	0	24,202	24,202
English Proficiency	0	0	407	407
Capital Improvements	0	0	64,087	64,087
<i>Total Restricted</i>	0	0	188,250	188,250
<i>Assigned to</i>				
Positive Education Programs	3,018,485	0	0	3,018,485
Purchases on Order:				
Instructional Services	119,521	0	0	119,521
Support Services	602,868	0	0	602,868
<i>Total Assigned</i>	3,740,874	0	0	3,740,874
<i>Unassigned (Deficit)</i>	6,933,329	(132,068)	(241,364)	6,559,897
<i>Total Fund Balances (Deficit)</i>	\$10,800,833	(\$132,068)	(\$53,114)	\$10,615,651

Note 5 – Fund Deficits

Fund balances at June 30, 2015, included the following individual fund deficits:

Special Revenue Funds:

Title VI-B	\$132,068
Miscellaneous Federal Grants	164,100
Peer Assistance	5,410
Improving Teacher Quality	18,583
Race to the Top	44,109
Preschool Disabilities	8,189
Alternative Schools	973

These deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 6 – Deposits and Investments

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

Active deposits are public monies determined to be necessary to meet current demands upon the Service Center treasury. Active 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 has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$8,044,847 of the Service Center's bank balance of \$15,800,817 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

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

Investments

As of June 30, 2015, the Service Center had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity	Standard & Poor's Rating	Percentage of Total Investments
Federal Home Loan Mortgage Corporation Notes	\$2,001,755	Less than five years	AA+	35.01 %
Federal Farm Credit Bank Bonds	1,251,233	Less than five years	AA+	21.89
Federal National Mortgage Association Notes	502,980	Less than five years	AA+	8.80
STAR Ohio	1,960,984	Average 51.4 Days	N/A	N/A
Total	<u>\$5,716,952</u>			

Interest Rate Risk The Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk The Standard and Poor's rating of the Service Center's investment is listed in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Service Center has no investment policy that would further limit its investment choices.

Concentration of Credit Risk The Service Center places no limit on the amount it may invest in any one issuer.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 7 – Receivables

Receivables at June 30, 2015, consisted of accounts, accrued interest and intergovernmental grants. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Positive Education Program	\$2,103,183
Title VI-B Grant	831,417
Miscellaneous Federal Grants	432,308
Race to the Top Grant	283,689
Improving Teacher Quality Grant	204,268
Peer Assistance Grant	134,656
Local Grants	126,030
Refugee Children School Impact Grant	69,077
Preschool Disabilities Grant	44,076
Title III Grant	29,177
Total	\$4,257,881

Note 8 – State Funding

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

The Service Center also receives funding from the State Department of Education in the amount of \$35 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Service Center.

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

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$146,778	\$402,226	\$0	\$549,004
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	10,001,549	377,131	0	10,378,680
Furniture and Equipment	971,978	301,326	(71,747)	1,201,557
<i>Total Capital Assets, being depreciated</i>	<u>10,973,527</u>	<u>678,457</u>	<u>(71,747)</u>	<u>11,580,237</u>
Less Accumulated Depreciation				
Buildings and Improvements	(562,443)	(96,524)	0	(658,967)
Furniture and Equipment	(611,937)	(169,626)	59,488	(722,075)
Total Accumulated Depreciation	<u>(1,174,380)</u>	<u>(266,150) *</u>	<u>59,488</u>	<u>(1,381,042)</u>
Total Capital Assets, being depreciated, net	<u>9,799,147</u>	<u>412,307</u>	<u>(12,259)</u>	<u>10,199,195</u>
Governmental Activities Capital Assets, Net	<u>\$9,945,925</u>	<u>\$814,533</u>	<u>(\$12,259)</u>	<u>\$10,748,199</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$5,416
Special	12,541
Support Services:	
Pupil	15,095
Instructional Staff	46,044
Administration	175,068
Fiscal	9,421
Operation of Non-Instructional Services	2,162
Extracurricular Activities	403
Total Depreciation Expense	<u>\$266,150</u>

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Note 10 – Interfund Transactions

Interfund balances at June 30, 2015, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable
	General
<i>Governmental Activities</i>	
Major Fund:	
Title VI-B	\$256,000
Other Governmental Funds:	
Miscellaneous Federal Grants	250,000
Peer Assistance	100,000
Improving Teacher Quality	305,000
Race to the Top	450,000
Preschool Disabilities	18,000
Alternative Schools	3,000
Local Grants	300,000
Title I	37,000
Title III	41,000
<i>Total Governmental Funds</i>	<u><u>\$1,760,000</u></u>

The interfund payables are advances for grant monies that were not received by fiscal year end. The Service Center expects to receive the grant monies and repay the loans within the next fiscal year.

Note 11 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Vacation is paid upon separation. All employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all employees.

Upon retirement, classified employees who have at least ten years of service credit with the State (the last ten years with the Service Center) are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days. Certified employees, administrators and supervisors who have at least ten years of service credit with the State (the last five years with the Service Center), are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Life Insurance

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees who work over 20 hours in a week through the Met Life Insurance Company.

Other Employer Health Benefits

The Service Center provides prescription drug coverage through Healthspan, Anthem Blue Cross and Blue Shield, and CIGNA to all eligible employees. Vision insurance is provided through Anthem Blue Cross and Blue Shield, and dental insurance is provided through MetLife.

Note 12 – Risk Management

Property and Liability

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. During fiscal year 2015, the Service Center contracted with the Netherlands Insurance Company for the following insurance:

Type	Amount
General Liability:	
Bodily Injury (Aggregate Limit)	\$1,000,000
Personal Injury/Advertising Liability	1,000,000
Products/Completed Operations	2,000,000
General Annual Aggregate	2,000,000
Fire Legal Liability	300,000
Sexual Misconduct & Molestation Liability	1,000,000
Medical Expense Limit	15,000
Property:	
Blanket Building and Contents	12,995,677
Educators' Legal Liability:	
Errors or Omissions Coverage	1,000,000
Automobile Liability:	
Bodily Injury and Property Damage	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

Workers' Compensation

The Service Center pays a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sheakley UniServices, Incorporated provides administrative, cost control and actuarial services to the Service Center.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Employee Health Benefits

The Service Center is self-insured for medical insurance. CIGNA, the third party administrator of the program, processes the claims for the Service Center's medical program. Monthly funding rates for medical insurance are \$2,290.97 for family coverage and \$773.98 for single coverage. The Service Center has stop loss coverage per family per year and a calculated aggregate maximum stop loss coverage for the 2015 plan year (July through June) that begins at \$6,726,595.

The claims liability of \$335,000 reported in the self insurance fund at June 30, 2015 for employee medical coverage was estimated by an independent health actuary and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for fiscal years 2014 and 2015 are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2014	\$447,000	\$6,373,176	\$6,412,176	\$408,000
2015	408,000	4,401,376	4,474,376	335,000

Note 13 – Long-Term Obligations

The changes in the Service Center's long-term obligations during fiscal year 2015 were as follows:

	Outstanding June 30, 2014	Additions	Deductions	Outstanding June 30, 2015	Due Within One Year
<i>Certificates of Participation:</i>					
2013 Certificates of Participation	\$2,380,000	\$0	\$235,000	\$2,145,000	\$245,000
2014 Certificates of Participation	0	300,000	5,000	295,000	35,000
<i>Total Certificates of Participation</i>	2,380,000	300,000	240,000	2,440,000	280,000
<i>Other Long-term Obligations:</i>					
<i>Net Pension Liability:</i>					
SERS	35,446,764	0	5,279,665	30,167,099	0
STRS	68,195,319	0	10,945,744	57,249,575	0
Total Net Pension Liability	103,642,083	0	16,225,409	87,416,674	0
Claims Payable	408,000	4,401,376	4,474,376	335,000	335,000
Capital Leases	4,450	77,057	14,845	66,662	18,465
Compensated Absences	1,458,761	861,025	1,077,282	1,242,504	842,182
<i>Total Other Long-term Obligations</i>	105,513,294	5,339,458	21,791,912	89,060,840	1,195,647
Total	\$107,893,294	\$5,639,458	\$22,031,912	\$91,500,840	\$1,475,647

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015

On May 22, 2013, the Service Center issued \$2,500,000 in certificates of participation for the purpose of various school improvements. The certificates were issued for a ten year period with a final maturity on December 1, 2022. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the Service Center. The COPs were issued through a series of annual leases with an initial lease term of five years with includes the right to renew for 15 successive one-year terms through fiscal year 2023 subject to annual appropriations. To satisfy the trustee agreements, the Service Center is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 2.75 percent. The Service Center has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture.

On September 24, 2014, the Service Center issued \$300,000 in certificates of participation for the purpose of expanding the Service Center parking lot. The lease certificates have a maturity date of December 1, 2023. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the Service Center. The COPs were issued through a series of annual leases with an initial lease term of five years with includes the right to renew for 15 successive one-year terms through fiscal year 2024 subject to annual appropriations. To satisfy the trustee agreements, the Service Center is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 3.25 percent. The Service Center has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture

Principal and interest requirements to retire the Certificates of Participation outstanding at June 30, 2015 are as follows:

Fiscal Year Ending June 30	Certificates of Participation	
	Principal	Interest
2016	\$280,000	\$64,638
2017	285,000	56,693
2018	290,000	48,613
2019	300,000	40,325
2020	305,000	31,831
2021-2023	980,000	41,737
Total	<u>\$2,440,000</u>	<u>\$283,837</u>

The certificates of participation will be paid from the general fund. The claims payable will be paid from the employee benefits self insurance fund. The capital leases will be paid from the general fund and title VI-B special revenue fund. Compensated absences will be paid from the general fund, and the local grants and title VI-B special revenue funds. The Service Center pays obligations related to employee compensation from the fund benefiting from their service. For additional information related to pension see Note 18.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Note 14 – Capital Leases

The Service Center has entered into capitalized leases for copiers. The leases meet the criteria for capital leases. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

The assets acquired through the capital leases are as follows:

Assets:	
Copiers	\$198,243
Less: Accumulated Depreciation	<u>(39,649)</u>
Total Book Value as of June 30, 2015	<u><u>\$158,594</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2015.

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Governmental</u> <u>Activities</u>
2016	\$21,083
2017	21,083
2018	21,083
2019	<u>8,784</u>
Total Minimum Lease Payments	72,033
Less: Amounts Representing Interest	<u>(5,371)</u>
Present Value of Minimum Lease Payments	<u><u>\$66,662</u></u>

Note 15 – Jointly Governed Organizations

North Coast Council (NCC)

NCC is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NCC based on a per pupil charge. The Service Center contributed \$118,284 to NCC during the fiscal year 2015.

The Governing Board consists of superintendents of each participating school district and the Service Center. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of NCC's financial statements, write to the Service Center at 6393 Oak Tree Boulevard., Independence, Ohio 44131.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

North Coast Educational Media Center (Media Center)

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2015.

The Governing Board consists of a representative of each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the Media Center's financial statements, write to the Service Center at 6393 Oak Tree Boulevard., Independence, Ohio 44131.

Positive Education Program (PEP)

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to the PEP in fiscal year 2015. PEP's twelve member governing board consists of: three superintendents elected from the participating school districts, three attorneys, one representative of the business community, one representative of the education community, and four consumers. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the PEP's financial statements, write to the Positive Education Program at 3100 Euclid Avenue, Cleveland, Ohio 44115-2508.

Note 16 - Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General	\$779,455
Title VI-B	78,538
Other Governmental Funds	<u>627,637</u>
Total	<u><u>\$1,485,630</u></u>

Note 17 – Contingencies

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, 2015, if applicable, cannot be determined at this time.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

School Foundation

Service Center funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional service centers must comply with minimum hours of instruction, instead of 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 Service Center, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Service Center.

Litigation

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2015.

Note 18 – 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.

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Service Center's contractually required contribution to SERS was \$2,369,083 for fiscal year 2015. Of this amount \$151,902 is reported as an intergovernmental payable.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The Service Center’s contractually required contribution to STRS was \$3,915,673 for fiscal year 2015. Of this amount \$269,797 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service Center's proportion of the net pension liability was based on the Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$30,167,099	\$57,249,575	\$87,416,674
Proportion of the Net Pension Liability	0.59607500%	0.23536772%	
Pension Expense	\$1,761,039	\$2,189,079	\$3,950,118

At June 30, 2015, the Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$256,754	\$551,151	\$807,905
Service Center contributions subsequent to the measurement date	<u>2,369,083</u>	<u>3,915,673</u>	<u>6,284,756</u>
Total Deferred Outflows of Resources	<u><u>\$2,625,837</u></u>	<u><u>\$4,466,824</u></u>	<u><u>\$7,092,661</u></u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u><u>\$4,896,205</u></u>	<u><u>\$10,591,388</u></u>	<u><u>\$15,487,593</u></u>

\$6,284,756 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 year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

Fiscal Year Ending June 30:	SERS	STRS	Total
2016	(\$1,159,214)	(\$2,510,059)	(\$3,669,273)
2017	(1,159,214)	(2,510,059)	(3,669,273)
2018	(1,159,214)	(2,510,059)	(3,669,273)
2019	(1,161,809)	(2,510,060)	(3,671,869)
Total	(\$4,639,451)	(\$10,040,237)	(\$14,679,688)

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, 2014, are presented as follows:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Service Center's proportionate share of the net pension liability	\$44,048,066	\$30,167,099	\$19,793,527

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

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 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	\$81,959,008	\$57,249,575	\$36,353,709

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2015, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 19 - Postemployment Benefits

School Employee 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 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum

Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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 2015, the Service Center's surcharge obligation was \$45,825.

The Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$193,219, \$161,516 and \$155,943, respectively. For fiscal year 2015, 93.96 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

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 year 2015, STRS did not allocate any employer contributions to post-employment health care. The Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$241,732 and \$224,501, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Required Supplementary Information

Educational Service Center of Cuyahoga County
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
Service Center's Proportion of the Net Pension Liability	0.59607500%	0.59607500%
Service Center's Proportionate Share of the Net Pension Liability	\$30,167,099	\$35,446,764
Service Center's Covered-Employee Payroll	\$17,325,057	\$17,327,092
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	174.12%	204.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

Educational Service Center of Cuyahoga County
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

	2014	2013
Service Center's Proportion of the Net Pension Liability	0.23536772%	0.23536772%
Service Center's Proportionate Share of the Net Pension Liability	\$57,249,575	\$68,195,319
Service Center's Covered-Employee Payroll	\$23,804,507	\$22,450,062
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	240.50%	303.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

Educational Service Center of Cuyahoga County
Required Supplementary Information
Schedule of Service Center Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$2,369,083	\$2,401,253	\$2,398,069	\$1,583,669
Contributions in Relation to the Contractually Required Contribution	<u>(2,369,083)</u>	<u>(2,401,253)</u>	<u>(2,398,069)</u>	<u>(1,583,669)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Service Center Covered-Employee Payroll	\$17,974,831	\$17,325,057	\$17,327,092	\$11,774,488
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007	2006
\$2,402,344	\$2,609,456	\$1,905,414	\$1,848,538	\$1,850,398	\$1,875,961
<u>(2,402,344)</u>	<u>(2,609,456)</u>	<u>(1,905,414)</u>	<u>(1,848,538)</u>	<u>(1,850,398)</u>	<u>(1,875,961)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$19,111,727	\$19,272,199	\$19,363,960	\$18,824,214	\$17,325,824	\$17,731,200
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

Educational Service Center of Cuyahoga County
Required Supplementary Information
Schedule of Service Center Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$3,915,673	\$3,094,586	\$2,918,508	\$2,238,018
Contributions in Relation to the Contractually Required Contribution	<u>(3,915,673)</u>	<u>(3,094,586)</u>	<u>(2,918,508)</u>	<u>(2,238,018)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Service Center Covered-Employee Payroll	\$27,969,093	\$23,804,507	\$22,450,062	\$17,215,523
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$2,957,596	\$3,074,137	\$2,961,937	\$2,736,288	\$2,608,665	\$2,657,409
<u>(2,957,596)</u>	<u>(3,074,137)</u>	<u>(2,961,937)</u>	<u>(2,736,288)</u>	<u>(2,608,665)</u>	<u>(2,657,409)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$22,750,738	\$23,647,208	\$22,784,131	\$21,048,369	\$20,066,654	\$20,441,608
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Additional Supplementary Information

Additional Supplementary Information

Educational Service Center of Cuyahoga County
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$4,033,028	
Interest			31,126	
Tuition and Fees			31,436,515	
Rentals			1,044,352	
Charges for Services			21,846,038	
Extracurricular Activities			25	
Contributions and Donations			2,696	
Miscellaneous			1,380,594	
<i>Total Revenues</i>			<u>59,774,374</u>	
Expenditures				
Current:				
Instruction:				
Regular	8,377,000	8,555,000	8,476,519	78,481
Special	30,090,368	30,369,719	30,284,180	85,539
Vocational	505,000	510,000	504,470	5,530
Support Services:				
Pupil	5,500,000	5,584,826	5,552,315	32,511
Instructional Staff	2,700,000	2,800,000	2,787,456	12,544
Board of Education	68,000	74,516	67,392	7,124
Administration	9,319,673	12,015,823	11,966,632	49,191
Fiscal	1,240,000	1,400,000	1,232,478	167,522
Business	55,188	75,000	66,185	8,815
Operation and Maintenance of Plant	1,201,293	2,022,173	1,983,423	38,750
Pupil Transportation	2,852	20,000	15,502	4,498
Central	41,758	600,000	542,591	57,409
Operation of Non-Instructional Services	0	25,000	22,945	2,055
Extracurricular Activities	6,967	16,000	14,723	1,277
Capital Outlay	20,000	20,000	17,872	2,128
Debt Service:				
Principal Retirement	0	240,000	240,000	0
Interest and Fiscal Charges	0	68,827	68,827	0
<i>Total Expenditures</i>	<u>59,128,099</u>	<u>64,396,884</u>	<u>63,843,510</u>	<u>553,374</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(59,128,099)</u>	<u>(64,396,884)</u>	<u>(4,069,136)</u>	
Other Financing Sources (Uses)				
Advances In			1,450,000	
Advances Out			(1,760,000)	
<i>Total Other Financing Sources (Uses)</i>			<u>(310,000)</u>	
<i>Net Change in Fund Balance</i>			(4,379,136)	
<i>Fund Balance Beginning of Year</i>			12,102,040	
Prior Year Encumbrances Appropriated			761,255	
<i>Fund Balance End of Year</i>			<u>\$8,484,159</u>	

See accompanying notes to the additional supplementary information
See accountant's compilation report

Additional Supplementary Information

Educational Service Center of Cuyahoga County
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Title VI-B Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$2,499,697	
Expenditures				
Current:				
Instruction:				
Special	280,000	274,906	274,906	0
Support Services:				
Pupil	125,000	104,127	104,127	0
Instructional Staff	1,500,000	1,881,393	1,440,319	441,074
Administration	500,000	507,456	411,714	95,742
Fiscal	92,879	61,840	49,840	12,000
Operation and Maintenance of Plant	74,500	74,500	74,500	0
Operation of Non-Instructional Services	300,000	311,787	282,642	29,145
<i>Total Expenditures</i>	<u>2,872,379</u>	<u>3,216,009</u>	<u>2,638,048</u>	<u>577,961</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,872,379)</u>	<u>(3,216,009)</u>	<u>(138,351)</u>	
Other Financing Sources (Uses)				
Advances In			256,000	
Advances Out			<u>(195,000)</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>61,000</u>	
<i>Net Change in Fund Balance</i>			(77,351)	
<i>Fund Balance Beginning of Year</i>			220,461	
Prior Year Encumbrances Appropriated			<u>51,379</u>	
<i>Fund Balance End of Year</i>			<u><u>\$194,489</u></u>	

See accompanying notes to the additional supplementary information
See accountant's compilation report

Educational Service Center of Cuyahoga County

Notes to the Additional Supplementary Information

For the Fiscal Year Ended June 30, 2015

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The Service Center is not required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Budgetary Basis of Accounting

While the Service Center is reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual for the general fund and the major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
3. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
6. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).

Educational Service Center of Cuyahoga County

Notes to the Additional Supplementary Information

For the Fiscal Year Ended June 30, 2015

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements for the major funds.

	<u>General</u>	<u>Title VI-B</u>
GAAP Basis	(\$2,585,515)	(\$59,961)
Net Adjustment for Revenue Accruals	(45,802)	(21,576)
Ending Unrecorded Cash	(11,778)	0
Beginning Fair Value Adjustment	(495)	0
Ending Fair Value Adjustment	(2,933)	0
Advances In	1,450,000	256,000
Advances Out	(1,760,000)	(195,000)
Net Adjustment for Expenditure Accruals	(643,158)	21,724
Adjustment for Encumbrances	<u>(779,455)</u>	<u>(78,538)</u>
Budget Basis	<u><u>(\$4,379,136)</u></u>	<u><u>(\$77,351)</u></u>

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Year	CFDA Number	Receipts	Disbursements
<u>U.S. Department of Agriculture:</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Federal School Breakfast	2015	10.553	\$ 127,934	\$ 127,934
National School Lunch Program	2015	10.555	208,771	208,771
Total U.S. Department of Agriculture			<u>336,705</u>	<u>336,705</u>
<u>U.S. Department of Education:</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Title I Cluster:				
Title I-Grants to Local Educational Agencies	2014	84.010	1,491	1,491
Special Education Cluster:				
Special Education - Grants to States (IDEA, Part B)	2014	84.027	156,532	240,540
Special Education - Grants to States (IDEA, Part B)	2015	84.027	2,343,165	2,318,970
Subtotal Special Education - Grants to States (IDEA, Part B)			2,499,697	2,559,510
Special Education - Preschool Grants (IDEA Preschool)	2014	84.173	-	566
Special Education - Preschool Grants (IDEA Preschool)	2015	84.173	42,106	52,796
Subtotal Special Education - Preschool Grants (IDEA Preschool)			42,106	53,362
Total Special Education Cluster (IDEA)			<u>2,541,803</u>	<u>2,612,872</u>
School Climate Transformation	2015	84.184	10,343	10,038
Special Education - State Personnel Development	2014	84.323	7,308	15,693
Special Education - State Personnel Development	2015	84.323	55,706	58,113
Total Special Education - State Personnel Development			<u>63,014</u>	<u>73,806</u>
Improving Teacher Quality State Grants, Title II-A	2014	84.367	7,133	9,503
Improving Teacher Quality State Grants, Title II-A	2015	84.367	116,932	313,421
Total Improving Teacher Quality State Grants, Title II-A			<u>124,065</u>	<u>322,924</u>
English Language Acquisition Grant	2015	84.365	111,817	111,216
ARRA - Race To The Top	2013	84.395	7,957	-
ARRA - Race To The Top	2014	84.395	102,196	117,399
ARRA - Race To The Top	2015	84.395	730,311	771,159
Total ARRA - Race To The Top			<u>840,464</u>	<u>888,558</u>
SST Early Learning Challenge	2015	84.412	22,957	11,569
<i>Passed-Through Ohio Department of Health:</i>				
Special Education - Grants for Infants and Families	2014	84.181	227,812	-
Special Education - Grants for Infants and Families	2015	84.181	1,309,662	1,475,435
Total Special Education - Grants for Infants and Families			<u>1,537,474</u>	<u>1,475,435</u>
Total U.S. Department of Education			<u>5,253,428</u>	<u>5,507,909</u>
<u>U.S. Department of Health and Human Services:</u>				
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Project AWARE	2015	93.243	123,332	106,522
Refugee and Entrant Assistance Grant	2014	93.576	64,511	64,511
Refugee and Entrant Assistance Grant	2015	93.576	10,548	10,548
Total Refugee Impact and Entrant Assistance			<u>75,059</u>	<u>75,059</u>
Total U.S. Department of Health and Human Services			<u>198,391</u>	<u>181,581</u>
Total Receipts and Expenditures of Federal Awards			<u>\$ 5,788,524</u>	<u>\$ 6,026,195</u>

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Educational Service Center of Cuyahoga County's (the Service Center's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

The Service Center passes certain federal awards received from U.S. Department of Agriculture and U.S. Department of Education to other governments or not-for-profit agencies (subrecipients). As Note A describes, the Service Center reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the Service Center has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and those subrecipients achieve the award's performance goals.

In fiscal year 2015 the Service Center passed \$336,705 of Nutrition Cluster funds to other entities.

NOTE C - CHILD NUTRITION CLUSTER

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



Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County
Cuyahoga County
6393 Oak Tree Boulevard
Independence, Ohio 44131

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2015, 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 February 17, 2016, wherein we noted the Service Center adopted Government Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the 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*.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

February 17, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Educational Service Center of Cuyahoga County
Cuyahoga County
6393 Oak Tree Boulevard
Independence, Ohio 44131

To the Governing Board:

Report on Compliance for Each Major Federal Program

We have audited the Educational Service Center of Cuyahoga County's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Educational Service Center of Cuyahoga County's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Service Center's major federal programs.

Management's Responsibility

The Service Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Service Center's compliance for each of the Service Center's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 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 programs. However, our audit does not provide a legal determination of the Service Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Educational Service Center of Cuyahoga County complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

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 each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

February 17, 2016

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material 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?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	<u>Nutrition Cluster</u> Federal Breakfast Program - CFDA #10.553; National School Lunch Program - CFDA #10.555 <u>Special Education Cluster</u> Special Education - Grants to States (IDEA, Part B) - CFDA #84.027; Special Education - Preschool Grants (IDEA Preschool) – CFDA #84.173 <u>ARRA Race to the Top</u> State Fiscal Stabilization Fund (SFSF) – Race to the Top - CFDA #84.395
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015
(CONTINUED)**

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	Food Service Subrecipient Monitoring - Service Center did not provide adequate monitoring of the Nutrition Cluster Subrecipient.	Yes	Corrected

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EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 17, 2016**