



Dave Yost • Auditor of State

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY**

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GEAUGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio, (the Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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 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 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, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2017, on our consideration of the 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 Center's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 17, 2017

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net position of governmental activities decreased \$5,695,103 which represents a 39.40 percent decrease from fiscal year 2015.
- General revenues accounted for \$276,213 in revenue or 2.32 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11,623,858 or 97.68 percent of total revenues of \$11,900,071.
- The Educational Service Center had \$13,929,016 in expenses related to governmental activities; \$11,623,858 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$276,213 were not adequate to support the Educational Service Center's programs.
- The Educational Service Center reported a special item in the amount of \$3,666,158 for the transfer of assets to the iSTEM Geauga Early College High School. See Note 2.R to the notes to the basic financial statements for detail.
- The Educational Service Center's major governmental fund is the general fund. The general fund had \$11,407,141 in revenues and \$12,196,579 in expenditures. During fiscal year 2016, the general fund's fund balance decreased \$789,438 from a balance of \$1,384,659 to \$595,221.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Educational 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 Educational Service Center, presenting both an aggregate view of the Educational 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 Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Educational Service Center, the general fund is the most significant fund, and the only governmental fund reported as a major fund.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole contains all financial transactions and asks the question, "How did the Educational Service Center perform financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all (non-fiduciary) assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

Governmental Funds

Most of the Educational Service Center's activities are reported 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 the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the net pension liability in this report after the notes to the basic financial statements.

The Educational Service Center as a Whole

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole. The table below provides a summary of the Educational Service Center's net position for 2016 and 2015.

	Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Assets</u>		
Current and other assets	\$ 2,143,929	\$ 8,385,321
Capital assets	<u>16,986</u>	<u>19,778</u>
Total assets	<u>2,160,915</u>	<u>8,405,099</u>
<u>Deferred outflows of resources</u>	<u>2,036,561</u>	<u>1,389,730</u>
<u>Liabilities</u>		
Current liabilities	1,156,720	1,409,098
Long-term liabilities:		
Due within one year	60,543	63,129
Due in more than one year:		
Net pension liability	21,147,245	19,000,961
Other amounts	<u>344,354</u>	<u>366,007</u>
Total liabilities	<u>22,708,862</u>	<u>20,839,195</u>
<u>Deferred inflows of resources</u>	<u>1,636,930</u>	<u>3,408,847</u>
<u>Net Position</u>		
Net investment in capital assets	16,986	19,778
Restricted	75,036	5,371,620
Unrestricted (deficit)	<u>(20,240,338)</u>	<u>(19,844,611)</u>
Total net position (deficit)	<u>\$ (20,148,316)</u>	<u>\$ (14,453,213)</u>

During 2015, the Educational Service Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(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 Educational Service Center's proportionate share of each plan's collective:

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

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

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

In accordance with GASB 68, the Educational 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 Educational Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Educational Service Center's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$20,148,316. Of this total, a deficit of \$20,240,338 is unrestricted in use, which is a result of reporting the net pension liability required by GASB Statement No. 68.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

At year-end, capital assets represented 0.79 percent of total assets. Capital assets include furniture, fixtures and equipment. The Educational Service Center's investment in capital assets at June 30, 2016, was \$16,986. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the Educational Service Center's net position, \$75,036 represents resources that are subject to external restriction on how they may be used. Restricted net position decreased from the prior year due to funds received in 2015 for the Straight A fund grant to establish the iSTEM Geauga Early College High School.

Current assets reported at June 30, 2016 decreased from June 30, 2015, due to depreciation expense exceeding capital outlay in the current period.

Governmental Activities

The net position of the Educational Service Center's governmental activities decreased \$5,695,103. Total governmental expenses of \$13,929,016 were offset by program revenues of \$11,623,858 and general revenues of \$276,213. Program revenues supported 83.45 percent of the total governmental expenses for fiscal year 2016.

The Educational Service Center reported a special item of \$3,666,158 as an expense for transferring assets to the iSTEM Geauga Early College High School, which began operations in fiscal year 2016. During fiscal year 2015, the Educational Service Center was awarded a Straight A grant to establish the iSTEM Geauga Early College High School. The administration of the Straight A grant was reported in a special revenue fund. The Educational Service Center is the fiscal agent for the iSTEM Geauga Early College High School, which is a separate legal entity. The iSTEM Geauga Early College High School is reported as an agency fund in the Educational Service Center's fiscal year 2016 basic financial statements.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 94.35 percent of total governmental revenue. During fiscal year 2016, the Educational Service Center collected less charges for services and operating grant revenue. The decreased charges for services and sales can be attributed to fewer revenues generated due to staff development services offered to participating districts and fewer pupil support services offered to participating districts. The Educational Service Center accounted for the administration of the Straight A fund grant during fiscal year 2015, which resulted in decreased operating grants program revenue in 2016.

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**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

The table below shows the changes in net position for fiscal years 2016 and 2015.

	Changes in Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Revenues</u>		
Program Revenues:		
Charges for services and sales	\$ 11,227,936	\$ 12,779,283
Operating grants and contributions	395,922	6,603,387
General revenues:		
Grants and entitlements	123,685	332,611
Investment earnings	4,148	4,363
Miscellaneous	148,380	158,577
Total revenues	<u>11,900,071</u>	<u>19,878,221</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	78,430	114,873
Special	5,337,070	5,691,578
Vocational	697,460	466,165
Other	-	20,846
Support services:		
Pupil	3,892,201	3,979,169
Instructional staff	1,285,383	843,591
Board of education	22,450	34,075
Administration	1,550,730	1,591,663
Fiscal	297,082	272,846
Business	42,587	54,094
Operations and maintenance	71,429	81,686
Pupil transportation	6,505	8,141
Central	548,821	239,190
Pass through payments	<u>98,868</u>	<u>423,732</u>
Total expenses	<u>13,929,016</u>	<u>13,821,649</u>
Special item - transfer of assets to iSTEM Geauga Early College High School	<u>(3,666,158)</u>	<u>-</u>
Change in net position	(5,695,103)	6,056,572
Net position (deficit) at beginning of year	<u>(14,453,213)</u>	<u>(20,509,785)</u>
Net position (deficit) at end of year	<u>\$ (20,148,316)</u>	<u>\$ (14,453,213)</u>

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

Governmental Activities

Net position of the Educational Service Center's governmental activities decreased \$5,695,103. Total governmental expenses of \$13,929,016 were offset by program revenues of \$11,623,858 and general revenues of \$276,213. Program revenues supported 83.45% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales. This revenue source represents 94.35% of total governmental revenue.

The largest expense of the District is for support services. Support services expenses totaled \$7,717,188 or 55.41% of total governmental expenses for fiscal year 2016.

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

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 78,430	\$ (61,002)	\$ 114,873	\$ (3,144)
Special	5,337,070	417,922	5,691,578	(46,999)
Vocational	697,460	270,948	466,165	(2,705,919)
Other	-	-	20,846	915
Support services:				
Pupil	3,892,201	250,237	3,979,169	(75,180)
Instructional staff	1,285,383	727,452	843,591	(1,412,357)
Board of education	22,450	1,702	34,075	32
Administration	1,550,730	239,959	1,591,663	(464,595)
Fiscal	297,082	29,111	272,846	(3,233)
Business	42,587	4,086	54,094	766
Operations and maintenance	71,429	6,065	81,686	390
Pupil transportation	6,505	2,249	8,141	1,890
Central	548,821	317,561	239,190	(346,997)
Pass through payments	<u>98,868</u>	<u>98,868</u>	<u>423,732</u>	<u>(506,590)</u>
Total expenses	<u>\$ 13,929,016</u>	<u>\$ 2,305,158</u>	<u>\$ 13,821,649</u>	<u>\$ (5,561,021)</u>

Governmental activities were supported by program revenues for 83.45 percent of the total governmental activities expenses for fiscal year 2016. The primary support of the Educational Service Center is tuition and contracted fees for services provided to school districts.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

The Educational Service Center's Funds

The Educational Service Center's governmental funds reported a combined fund balance of \$604,353, which is lower than last year's total of \$6,173,030. The schedule below indicates the fund balances and the changes in fund balances as of June 30, 2016 and 2015.

<u>Funds</u>	<u>Fund Balance June 30, 2016</u>	<u>Fund Balance June 30, 2015</u>	<u>Change</u>
General	\$ 595,221	\$ 1,384,659	\$ (789,438)
Nonmajor governmental	<u>9,132</u>	<u>4,788,371</u>	<u>(4,779,239)</u>
Total	<u>\$ 604,353</u>	<u>\$ 6,173,030</u>	<u>\$ (5,568,677)</u>

The decrease in fund balance in the nonmajor governmental funds is due to the transfer of assets from the nonmajor Staight A fund to the iSTEM Geauga Early College high school during fiscal year 2016.

General Fund

The Educational Service Center's general fund balance decreased \$789,438. The table that follows shows the revenues of the general fund for fiscal years 2016 and 2015.

<u>Revenues</u>	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Tuition	\$ 1,064,619	\$ 2,042,311	\$ (977,692)	(47.87) %
Earnings on investments	4,148	4,363	(215)	(4.93) %
Customer sales and services	10,065,709	10,549,963	(484,254)	(4.59) %
Intergovernmental	123,685	332,611	(208,926)	(62.81) %
Other revenues	<u>148,980</u>	<u>159,487</u>	<u>(10,507)</u>	(6.59) %
Total	<u>\$ 11,407,141</u>	<u>\$ 13,088,735</u>	<u>\$ (1,681,594)</u>	(12.85) %

Overall, revenues of the general fund decreased 12.85 percent during fiscal year 2016. Tuition and customer sales and services revenue decreased as a result of fewer staff development and pupil support services offered to participating districts. Intergovernmental revenue decreased due to less funds received through state foundation. Other revenues decreased from refunds and reimbursements received during fiscal year 2016.

<u>Expenditures</u>	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Instruction	\$ 5,886,709	\$ 6,253,826	\$ (367,117)	(5.87) %
Support services	<u>6,309,870</u>	<u>6,631,065</u>	<u>(321,195)</u>	(4.84) %
Total	<u>\$ 12,196,579</u>	<u>\$ 12,884,891</u>	<u>\$ (688,312)</u>	(5.34) %

Instruction expenditures and support services decreased 5.87 percent from fiscal year 2015 as result of fewer programs offered to participating districts.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the general fund.

During the course of fiscal year 2016, the Educational Service Center amended its general fund budget significantly. Many of the amendments were due to changes made in service programs offered to the participating districts; such as additional pupil support services and staff development services.

For the general fund, the original budget basis revenue estimated totaled \$12,436,223 compared to the final budget basis revenue estimate of \$11,817,913. The decrease can be attributed to decreased collection from customer sales and services revenues along with a decrease in tuition revenues.

The final budget basis expenditures estimate totaled \$12,721,864 compared to original estimates of \$11,576,788. The actual expenditures and other financing uses totaled \$12,669,328 which was \$52,536 lower than the final budget basis expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2016 the Educational Service Center had \$16,986 invested in furniture, fixtures and equipment. The table that follows shows the balances of the Educational Service Center's capital assets at June 30, 2016 compared to balances at June 30, 2015.

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

	Governmental Activities	
	2016	2015
Furniture, fixtures, and equipment	\$ 194,935	\$ 193,060
Less: Accumulated depreciation	(177,949)	(173,282)
Total	\$ 16,986	\$ 19,778

The overall decrease in capital assets during fiscal year 2016 resulted from depreciation expense of \$5,679 exceeding capital outlay of \$2,887 during the current period.

See Note 8 to the basic financial statements for additional information on the Educational Service Center's capital assets.

Debt Administration

The Educational Service Center had no debt obligations outstanding as of June 30, 2016.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

Current Financial Related Activities

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

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our member districts and other interested parties with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Sue Sotkovsky, Treasurer of the Geauga County Educational Service Center, at 470 Center Street, Building #2, Chardon, Ohio 44024-1068 or call 440-279-1700.

**BASIC
FINANCIAL STATEMENTS**

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 850,575
Receivables:	
Accounts.	3,726
Intergovernmental	1,177,919
Loan	111,709
Capital assets:	
Depreciable capital assets, net.	<u>16,986</u>
Total assets.	<u>2,160,915</u>
Deferred outflows of resources:	
Pension - STRS	1,594,066
Pension - SERS	<u>442,495</u>
Total deferred outflows of resources	<u>2,036,561</u>
Liabilities:	
Accounts payable.	43,685
Accrued wages and benefits payable	896,798
Intergovernmental payable	200,556
Matured compensated absences payable	15,681
Long-term liabilities:	
Due within one year	60,543
Due in more than one year:	
Net pension liability (See Note 10)	21,147,245
Other amounts due in more than one year	<u>344,354</u>
Total liabilities	<u>22,708,862</u>
Deferred inflows of resources:	
Pension - STRS.	1,176,422
Pension - SERS.	<u>460,508</u>
Total deferred inflows of resources	<u>1,636,930</u>
Net position:	
Net investment in capital assets	16,986
Restricted for:	
State funded programs.	65,431
Other purposes.	9,605
Unrestricted (deficit)	<u>(20,240,338)</u>
Total net position (deficit).	<u><u>\$ (20,148,316)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 78,430	\$ 114,426	\$ 25,006	\$ 61,002
Special	5,337,070	4,854,103	65,045	(417,922)
Vocational	697,460	425,891	621	(270,948)
Support services:				
Pupil	3,892,201	3,608,666	33,298	(250,237)
Instructional staff	1,285,383	554,214	3,717	(727,452)
Board of education	22,450	20,748	-	(1,702)
Administration	1,550,730	1,088,347	222,424	(239,959)
Fiscal	297,082	263,359	4,612	(29,111)
Business	42,587	38,501	-	(4,086)
Operations and maintenance	71,429	65,364	-	(6,065)
Pupil transportation	6,505	4,256	-	(2,249)
Central	548,821	190,061	41,199	(317,561)
Pass through payments	98,868	-	-	(98,868)
Total governmental activities	<u>\$ 13,929,016</u>	<u>\$ 11,227,936</u>	<u>\$ 395,922</u>	<u>(2,305,158)</u>
General revenues:				
Grants and entitlements not restricted to specific programs				123,685
Investment earnings				4,148
Miscellaneous				148,380
Total general revenues				276,213
Special item - transfer of assets to iSTEM Geauga Early College High School				(3,666,158)
Change in net position				(5,695,103)
Net position (deficit) at beginning of year				(14,453,213)
Net position (deficit) at end of year				\$ (20,148,316)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 838,644	\$ 11,931	\$ 850,575
Receivables:			
Accounts	3,726	-	3,726
Intergovernmental.	1,069,922	107,997	1,177,919
Interfund loans receivable	41,916	-	41,916
Due from other funds	2,976	-	2,976
Loan	111,709	-	111,709
Total assets	\$ 2,068,893	\$ 119,928	\$ 2,188,821
Liabilities:			
Accounts payable	\$ 43,685	\$ -	\$ 43,685
Accrued wages and benefits payable	896,798	-	896,798
Intergovernmental payable	200,556	-	200,556
Compensated absences payable	15,681	-	15,681
Interfund loans payable	-	41,916	41,916
Due to other funds.	-	2,976	2,976
Total liabilities.	1,156,720	44,892	1,201,612
Deferred inflows of resources:			
Intergovernmental revenue not available.	-	65,904	65,904
Customer sales and services revenue not available	316,952	-	316,952
Total deferred inflows of resources	316,952	65,904	382,856
Fund balances:			
Restricted:			
Other purposes.	-	9,605	9,605
Assigned:			
Student and staff support.	28,259	-	28,259
Unassigned	566,962	(473)	566,489
Total fund balances	595,221	9,132	604,353
Total liabilities, deferred inflows of resources and fund balances	\$ 2,068,893	\$ 119,928	\$ 2,188,821

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

Total governmental fund balances	\$	604,353
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,986
Other long-term assets (intergovernmental receivables) are not available to pay for current period expenditures and therefore are deferred inflows in the funds.		382,856
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:		
Deferred outflows of resources - pension	2,036,561	
Deferred inflows of resources - pension	(1,636,930)	
Net pension liability	<u>(21,147,245)</u>	
Total		(20,747,614)
Long-term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.		<u>(404,897)</u>
Net position (deficit) of governmental activities	\$	<u>(20,148,316)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Customer sales and services	\$ 10,065,709	\$ -	\$ 10,065,709
Tuition.	1,064,619	-	1,064,619
Earnings on investments	4,148	-	4,148
Classroom materials and fees	600	-	600
Contributions and donations	46,977	1,045	48,022
Other local revenues	101,403	2,986	104,389
Intergovernmental - state	123,685	237,620	361,305
Intergovernmental - federal	-	88,367	88,367
Total revenues	11,407,141	330,018	11,737,159
Expenditures:			
Current:			
Instruction:			
Regular.	125,594	21,685	147,279
Special	5,297,548	64,000	5,361,548
Vocational	463,567	257,064	720,631
Support services:			
Pupil	3,956,069	33,298	3,989,367
Instructional staff	586,839	711,250	1,298,089
Board of education	22,784	-	22,784
Administration	1,131,966	472,017	1,603,983
Fiscal	282,878	6,304	289,182
Business.	42,286	-	42,286
Operations and maintenance	71,743	-	71,743
Pupil transportation	4,669	-	4,669
Central	210,636	361,862	572,498
Pass through payments	-	98,868	98,868
Total expenditures	12,196,579	2,026,348	14,222,927
Excess of expenditures over revenues	(789,438)	(1,696,330)	(2,485,768)
Special item:			
Transfer of assets to iSTEM Geauga			
Early College High School	-	(3,082,909)	(3,082,909)
Net change in fund balances	(789,438)	(4,779,239)	(5,568,677)
Fund balances at beginning of year	1,384,659	4,788,371	6,173,030
Fund balances at end of year.	\$ 595,221	\$ 9,132	\$ 604,353

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

Net change in fund balances - total governmental funds		\$ (5,568,677)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 2,887	
Current year depreciation	(5,679)	
Total		(2,792)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Customer sales and services	97,008	
Intergovernmental	(517,345)	
Total		(420,337)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		1,214,690
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(942,226)
Some expenses reported in the statement of activities (compensated absences), do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		24,239
Change in net position of governmental activities		\$ (5,695,103)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Customer sales and services	\$ 10,617,264	\$ 10,307,694	\$ 10,307,694	\$ -
Tuition	1,470,076	1,059,392	1,059,392	-
Earnings on investments	4,000	4,148	4,148	-
Classroom materials and fees	-	600	600	-
Contributions and donations	28,650	46,976	46,976	-
Other local revenues	-	101,403	101,403	-
Intergovernmental - state	163,733	144,008	144,008	-
Total revenues	<u>12,283,723</u>	<u>11,664,221</u>	<u>11,664,221</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	103,604	125,672	125,672	-
Special	5,020,025	5,371,715	5,332,490	39,225
Vocational	379,366	467,755	467,755	-
Support services:				
Pupil	3,579,402	3,976,494	3,976,494	-
Instructional staff	670,953	623,859	611,724	12,135
Board of education	36,331	22,787	22,787	-
Administration	1,204,134	1,201,868	1,200,692	1,176
Fiscal	248,755	289,247	289,247	-
Business	58,833	42,286	42,286	-
Operations and maintenance	74,626	77,111	77,111	-
Pupil transportation	1,230	4,674	4,674	-
Central	160,875	211,594	211,594	-
Total expenditures	<u>11,538,134</u>	<u>12,415,062</u>	<u>12,362,526</u>	<u>52,536</u>
Excess (deficiency) of revenues over (under) expenditures	<u>745,589</u>	<u>(750,841)</u>	<u>(698,305)</u>	<u>52,536</u>
Other financing sources:				
Refund of prior year's expenditures	2,500	515	515	-
Transfers in	150,000	153,177	153,177	-
Transfers (out)	(38,654)	(153,177)	(153,177)	-
Advances (out)	-	(153,625)	(153,625)	-
Total other financing sources	<u>113,846</u>	<u>(153,110)</u>	<u>(153,110)</u>	<u>-</u>
Net change in fund balance	859,435	(903,951)	(851,415)	52,536
Fund balance at beginning of year	1,620,345	1,620,345	1,620,345	-
Prior year encumbrances appropriated	41,121	41,121	41,121	-
Fund balance at end of year	<u>\$ 2,520,901</u>	<u>\$ 757,515</u>	<u>\$ 810,051</u>	<u>\$ 52,536</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Investment Trust Fund	Agency Fund
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,623,565	\$ -
Receivables:		
Intergovernmental.	-	212,206
Prepayments	-	955,679
Total assets.	2,623,565	1,167,885
Liabilities:		
Accounts payable.	-	1,365
Intergovernmental payable	-	1,054,811
Loan payable.	-	111,709
Total liabilities	-	1,167,885
Net position:		
Held in trust for pool participants	2,623,565	-
Total net position.	\$ 2,623,565	\$ -

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Investment Trust Fund
Additions:	
Interest	\$ 4,148
Total additions	4,148
Deductions:	
Capital transactions	156,418
Distributions to participants	4,148
Total deductions	160,566
Change in net position	(156,418)
Net position at beginning of year	2,779,983
Net position at end of year	\$ 2,623,565

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Geauga County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 1, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to local school districts in Geauga County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 75 noncertified, 111 certificated staff that provides services to 10,864 students through the school districts in Geauga County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or if the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes. The Educational Service Center has no component units.

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in Note 13 to the basic financial statements. These organizations include the Lake-Gauga Computer Association and the Ohio School Boards Association Workers Compensation Group Rating Program.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

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

B. Basis of Presentation

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

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

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets 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 is reported as fund balance. The following is the Educational Service Center's major governmental fund:

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

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

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

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

FIDUCIARY FUND TYPE

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has an investment trust fund which is used to account for the activity of the external investment pool for the Lake-Geauga Computer Association. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center is the fiscal agent for the iSTEM Geauga Early College High School, which is accounted for in an agency fund.

D. Measurement Focus

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

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

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Educational Service Center are included on the statement of net position.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

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

Fund Financial Statements - During the year, the Educational Service Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Educational Service Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, 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.

The investment trust fund is reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, 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 Educational Service Center, available means expected to be received within sixty days of fiscal year end.

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, see Note 10 for deferred outflows of resources related the Educational Service Center's net pension liability.

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

For the Educational Service Center, see Note 10 for deferred inflows of resources related to the Educational Service Center's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

F. Budgetary Data

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

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

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

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

G. Cash and Cash Equivalents

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

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2016, the general fund received interest earned in the amount of \$4,148 which includes \$1,328 assigned from other funds.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. The Educational Service Center had no prepaid items at June 30, 2016.

I. Capital Assets

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

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

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives for furniture and fixtures of five to ten years.

J. Interfund Balances

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

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements or fiduciary fund statement of net position.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

M. Interfund Transactions

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

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

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

N. Net Position

Net position represents the difference between assets and liabilities. Net investments in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

O. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not to be converted to cash.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center’s Board of Education; the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Educational Service Center’s Board of Education removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund balance 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 Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Educational Service Center’s Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

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

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

P. 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.

Q. 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.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. During fiscal year 2016, the Educational Service Center reported a special item for the transfer of \$583,249 in Straight A carryover grant funds, \$1,211,584 in prepaid multi-year start-up purchased services contracts, and \$1,871,325 in capital assets to the iSTEM Geauga Early College High School. The administration of the Straight A grant was reported by the Educational Service Center in a special revenue fund in fiscal years 2015 and 2016. The Straight A grant funds were used for the renovation of classroom space and technology labs, the purchase of capital assets, and the up-front payment of multi-year purchased services contracts. The Straight A carryover grant funds will be used by the iSTEM Geauga Early College High School for operations, which began in fiscal year 2016.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

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

B. Deficit Fund Balances

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

<u>Nonmajor fund:</u>	<u>Deficit</u>
Miscellaneous State Grants	\$ 473

The general fund is liable for the deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$3,474,140. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of June 30, 2016, \$3,217,216 of the Educational Service Center's \$3,717,216 bank balance was exposed to custodial risk as discussed below, while \$500,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Educational Service Center.

The Educational Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

B. Investments

As of June 30, 2016, the Educational Service Center had no outstanding investments.

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

Credit Risk: The Educational Service Center's investment policy does not specifically address credit risk beyond requiring the Educational Service Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Educational Service Center places no limit on the amount that may be invested to any one issue.

**GEOUGA COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2016 as reported on the fund statements, consist of the following interfund loan receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor Special Revenue Fund: Miscellaneous State Grants	<u>\$ 41,916</u>

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by June 30. The interfund balance will be repaid once the anticipated revenues are received and is expected to be repaid within one year.

This interfund balance between governmental funds is eliminated on the government-wide financial statements; therefore, an internal balance at June 30, 2016 is not reported on the statement of net position.

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

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor Special Revenue Funds: Alternative Education Title VI-B	\$ 535 <u>2,441</u>
Total due to/due from other funds		<u>\$ 2,976</u>

The primary purpose of the due to/from other funds is to cover the negative cash balances at fiscal year-end in the nonmajor governmental funds. The interfund balances will be repaid once the anticipated revenues are received.

The interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, the internal balances at June 30, 2016 are not reported on the statement of net position.

- C. Loans between governmental funds and the agency fund are reported as “loans receivable/payable” on the financial statements. The Educational Service Center had the following loan outstanding at fiscal year-end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General Fund	Agency - iSTEM Geauga Early College High School	\$ 111,709

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016 consisted of intergovernmental receivables (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Customer Sales & Services	\$ 1,022,184
State Foundation	3,518
iSTEM Geauga Early College High School	44,220
Nonmajor Governmental Funds:	
Grants:	
Miscellaneous State	105,021
Alternative Education	535
Title VI-B	2,441
Total Intergovernmental Receivables	\$ 1,177,919

NOTE 7 - STATE AND LOCAL FUNDING

The main sources of revenues of Educational Service Center (ESC) funding are the local funds that are deducted from the state foundation funding of the client districts and transferred to the ESC under ORC Sections 3313.843 or 3313.845 as well as state funds that are distributed directly to the ESCs based on parameters listed in Ohio Revised Code (ORC) Sections 263.220 and 263.390. Additionally, ESCs can apply to any state or federal agency for competitive grants.

A. State Funding

ORC Sections 263.220 and 263.390 provide for direct state funding of the ESCs for the general purpose of program maintenance and service delivery to client school districts.

State Per-Pupil Funding - One component of state funding is predicated on the per-pupil amounts of \$33 and \$35 in fiscal years 2016 and 2017, respectively. The per-pupil amount is applied to the total count of students of the client districts these entities serve. The law provides for \$37,950,000 and \$41,400,000 in fiscal years 2016 and 2017, respectively, for this purpose. As the appropriation for this funding is set and the funding is based on a constant per-pupil amount, it is often necessary and authorized by law for the fund distribution to be prorated in order to stay within the appropriations. As the data changes during the course of a fiscal year, so does the proration rate to maintain the appropriated levels.

State Gifted Funding - Another component of the state funding of ESCs is for gifted education. Under this section of the law the Ohio Department of Education (ODE) is authorized to set aside \$3,800,000 of the total statewide appropriation slated for Foundation Funding for ESC gifted education. ODE is to distribute this funding through the unit-based funding methodology in place under ORC Section 3317.024(L), ORC Section 3317.05(E) and ORC Section 3317.035(A), (B) and (C) as they existed prior to fiscal year 2010. These sections of the law provide for the cost of each gifted unit to be predicated on the salary and fringes of the full time equivalent of the personnel involved at 15% of the salary figure as well as any additional unit allowances the law allows. The law also provides for the proration of the resulting state funding if the appropriation is not sufficient.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - STATE AND LOCAL FUNDING - (Continued)

In addition to the above-mentioned funding from the state, ESCs also receive funding to cover the costs associated with the transportation of special needs students and for special equipment needed for such transportation. This aid is calculated as the lesser of the actual cost reported or the sum of \$6 per pupil per day plus half of the amount by which the actual cost exceeds \$6 per pupil per day. The state covers 60% of this amount.

B. Local Funding

ORC Section 3313.843 Contracts

Presently the law provides that city, exempted village and local school districts with an average daily enrollment of 16,000 or less must enter into an agreement with an ESC under ORC Section 3313.843. The services the ESC provides to the client district under this section may include a variety of services including special education for students with special needs. Since ESCs have no legal taxing or bonding authority they must depend on revenues from member school districts.

Local Per-Pupil Funding - ORC Section 3313.843(H) provides that pursuant to provisions of ORC Section 3317.023 the ODE annually shall deduct from each school district that enters into an agreement with an ESC under this section, a per-pupil amount of \$6.50 or an alternative amount in excess of \$6.50 if agreed upon by both the ESC and the client districts to be paid to the ESC. The per-pupil amount is multiplied by the school age students count of the client district as reported on the latest Report Card.

Local Preschool Funding – In addition to services provided to school age children, ESCs can also provide preschool services to children with disabilities who are under the age of 6 and are not enrolled in kindergarten. Under the provisions of ORC 3317.0213, the ODE shall compute and pay additional state aid to school districts for preschool children with disabilities. The state funding for preschool services goes directly to the school district based on the count of students the district reports. The district can choose to provide the services itself or contract with an ESC. Preschool funding will be calculated based on parameters specified in ORC Section 3317.0213(A). If the district provides the services itself, then the funding will remain with the district. If on the other hand the district contracts with an ESC, the calculated funding will be deducted from the foundation payment of the district and sent to the ESC.

School districts and ESCs can also agree on an alternative payment mechanism or they can agree on bypassing ODE altogether and base the payments directly from the district to the ESC. Should the district use these services for the preschool children and have ODE deduct the foundation from its foundation funding, the ESC funding will be based on a constant per-pupil amount of \$4,000 applied to the total count of all preschool children with disabilities plus special education per-pupil amounts as specified in the law, applied to each one of the 6 categories of special education preschool children. For this purpose special education preschool children are classified into 6 categories in accordance with their handicapping condition. The law provides for a unique per-pupil amount for each one of the categories that is applied at 50% strength to the number of children in the respective category. To wealth equalize this funding the law also calls for the application of the state share index which is the measure of the state contribution to the foundation formula of the district to this part of the funding calculation.

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

NOTE 7 - STATE AND LOCAL FUNDING

ORC Section 3313.845 Contracts

Service Contracts – In addition to service contracts under ORC Section 3313.843, districts may set up contracts with ESCs for various services based on agreed upon fees beyond those covered by ORC Section 3313.843 contracts. Funds for those contractual services can be deducted from contracting school districts’ foundation calculation and sent to the appropriate ESCs. To receive payment for these contracts an ESC must furnish the ODE with a copy of the contract or a written statement clearly indicating the amount of the contract for each contracting school district. ESCs also have the option of billing school districts directly for these contracts instead of having the state deduct the contract amounts from their foundation funding.

NOTE 8 - CAPITAL ASSETS

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

	Balance 7/1/2015	Additions	Deductions	Balance 6/30/16
Governmental activities:				
<i>Capital assets, being depreciated:</i>				
Furniture, fixtures and equipment	\$ 193,060	\$ 2,887	\$ (1,012)	\$ 194,935
Total capital assets, being depreciated	193,060	2,887	(1,012)	194,935
<i>Less: accumulated depreciation</i>				
Furniture, fixtures and equipment	(173,282)	(5,679)	1,012	(177,949)
Total accumulated depreciation	(173,282)	(5,679)	1,012	(177,949)
Governmental activities capital assets, net	\$ 19,778	\$ (2,792)	\$ -	\$ 16,986

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 462
Special	886
<u>Support services:</u>	
Pupil	112
Instructional staff	1,000
Administration	732
Business	301
Pupil transportation	1,836
Central	350
Total depreciation expense	\$ 5,679

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

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance <u>07/01/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/16</u>	Amounts due in <u>one year</u>
Governmental activities:					
Compensated absences payable	\$ 429,136	\$ 49,098	\$ (73,337)	\$ 404,897	\$ 60,543
Net pension liability:					
STRS	14,313,819	1,930,850	-	16,244,669	-
SERS	<u>4,687,142</u>	<u>215,434</u>	-	<u>4,902,576</u>	-
Total net pension liability	<u>19,000,961</u>	<u>2,146,284</u>	-	<u>21,147,245</u>	-
Total long-term obligations	<u>\$ 19,430,097</u>	<u>\$ 2,195,382</u>	<u>\$ (73,337)</u>	<u>\$ 21,552,142</u>	<u>\$ 60,543</u>

Compensated Absences - Compensated absences will be paid from the fund from which the employee is paid, which for the Educational Service Center, is primarily the general fund.

Net Pension Liability - The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. See Note 10 for details.

NOTE 10 - 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 Educational Service Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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NOTE 10 - DEFINED BENEFIT PENSION PLANS

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$361,297 for fiscal year 2016. Of this amount, \$17,768 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$853,393 for fiscal year 2016. Of this amount, \$107,784 is reported as 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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 4,902,576	\$ 16,244,669	\$ 21,147,245
Proportion of the net pension liability	0.08591820%	0.05877854%	
Pension expense	\$ 214,813	\$ 727,413	\$ 942,226

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 81,198	\$ 740,673	\$ 821,871
Center contributions subsequent to the measurement date	<u>361,297</u>	<u>853,393</u>	<u>1,214,690</u>
Total deferred outflows of resources	<u>\$ 442,495</u>	<u>\$ 1,594,066</u>	<u>\$ 2,036,561</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 203,688	\$ 1,170,636	\$ 1,374,324
Changes in proportionate share and differences between Center contributions and proportionate share of contributions	<u>256,820</u>	<u>5,786</u>	<u>262,606</u>
Total deferred inflows of resources	<u>\$ 460,508</u>	<u>\$ 1,176,422</u>	<u>\$ 1,636,930</u>

\$1,214,690 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (154,163)	\$ (265,830)	\$ (419,993)
2018	(154,163)	(265,830)	(419,993)
2019	(154,162)	(265,831)	(419,993)
2020	<u>83,178</u>	<u>361,742</u>	<u>444,920</u>
Total	<u>\$ (379,310)</u>	<u>\$ (435,749)</u>	<u>\$ (815,059)</u>

Actuarial Assumptions - SERS

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Center's proportionate share of the net pension liability	\$ 6,798,111	\$ 4,902,576	\$ 3,306,379

Actuarial Assumptions - STRS

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	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, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	\$ 22,565,071	\$ 16,244,669	\$ 10,899,827

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Educational Service Center's surcharge obligation was \$38,304.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$38,304, \$62,868, and \$44,835, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - POSTEMPLOYMENT BENEFITS

B. State Teachers Retirement System

Plan Description – The Educational 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 to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The Educational Service Center’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$60,078, respectively. The full amount has been contributed for fiscal year 2014.

NOTE 12 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Educational Service Center was insured under Love Insurance under the Ohio School Plan.

Professional liability was protected by Hylant Administrative Services, LLC with a \$5,000,000 annual aggregate/\$3,000,000 single occurrence limit and no deductible for each claim. Vehicles are covered by Nationwide Insurance Company and have a \$100 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in coverage from prior years.

For fiscal year 2016, the Educational Service Center participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program, an insurance purchasing pool (Note 13.B). The Program is intended to reduce premiums for the participants. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Program. Each participant pays its rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the “equity pooling fund”. This “equity pooling fund” arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the program.

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

NOTE 13 - JOINTLY GOVERNED ORGANIZATION AND INSURANCE PURCHASING POOL

A. Jointly Governed Organization

The Lake-Geauga Education Computer Association (“Association”) is a jointly governed organization consisting of 22 school districts in Lake, Geauga and Cuyahoga County. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Association is organized under Chapter 167 and 3313 of the Ohio Revised Code and is governed by an assembly that consists of a superintendent or designated representative from each participating member. The Association has a Board of Directors chosen from the general membership of the Association’s assembly. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the Association. All the consortium revenues are generated from charges for services and State funding. To obtain financial information, write the Lake-Geauga Education Computer Association, 8221 Auburn Road, Painesville, Ohio, 44077.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers’ compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers’ Compensation Group Rating Program (“Plan”) was established as an insurance purchasing pool.

The Plan’s business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

Certified and Classified employees earn ten to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation is paid upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 275 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 68.75 days.

B. Life Insurance

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust.

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and 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 the GAAP basis are that:

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (851,415)
Net adjustment for revenue accruals	(257,080)
Net adjustment for expenditure accruals	134,378
Net adjustment for other sources/uses	153,110
Adjustment for encumbrances	<u>31,569</u>
GAAP basis	<u>\$ (789,438)</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 16 - EXTERNAL INVESTMENT POOL

By Statute, the Educational Service Center serves as fiscal agent for a legally separate entity. The Educational Service Center pools money of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investment between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each Participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The fair value and carrying amounts for both the internal and external investment pools are disclosed in Note 4. Condensed financial information for the investment pool follows:

**Statement of Net Position
June 30, 2016**

Assets	
Equity in pooled cash and cash equivalents	\$ 3,474,140
Total assets	<u>\$ 3,474,140</u>
Net position held in trust for pool participants	
Internal portion	\$ 850,575
External portion	<u>2,623,565</u>
Total net position held in trust for pool participants	<u>\$ 3,474,140</u>

**Statement of Changes in Net Position
For Fiscal Year Ended June 30, 2016**

Additions	
Interest	\$ 8,296
Total additions	<u>8,296</u>
Deductions	
Capital transactions	(2,137,384)
Distributions to participants	<u>(8,296)</u>
Total deductions	<u>(2,145,680)</u>
Change in net position	(2,137,384)
Net position, beginning of year	<u>5,611,524</u>
Net position, end of year	<u>\$ 3,474,140</u>

NOTE 17 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the financial position of the Educational Service Center.

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

NOTE 17 - CONTINGENCIES - (Continued)

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect on the financial condition of the Educational Service Center.

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REQUIRED SUPPLEMENTARY INFORMATION

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**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Educational Service Center's proportion of the net pension liability	0.85918200%	0.09261400%	0.09261400%
Educational Service Center's proportionate share of the net pension liability	\$ 4,902,576	\$ 4,687,142	\$ 5,507,457
Educational Service Center's covered-employee payroll	\$ 2,586,586	\$ 2,691,169	\$ 2,251,091
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	244.66%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Educational Service Center's proportion of the net pension liability	0.05877854%	0.05884779%	0.05884779%
Educational Service Center's proportionate share of the net pension liability	\$ 16,244,669	\$ 14,313,819	\$ 17,050,528
Educational Service Center's covered-employee payroll	\$ 6,222,307	\$ 6,012,623	\$ 4,972,162
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.07%	238.06%	342.92%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 361,297	\$ 340,912	\$ 372,996	\$ 311,551
Contributions in relation to the contractually required contribution	<u>(361,297)</u>	<u>(340,912)</u>	<u>(372,996)</u>	<u>(311,551)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center's covered-employee payroll	\$ 2,580,693	\$ 2,586,586	\$ 2,691,169	\$ 2,251,091
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 321,622	\$ 307,405	\$ 204,976	\$ 144,744	\$ 125,563	\$ 99,119
<u>(321,622)</u>	<u>(307,405)</u>	<u>(204,976)</u>	<u>(144,744)</u>	<u>(125,563)</u>	<u>(99,119)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,391,242	\$ 2,445,545	\$ 1,513,855	\$ 1,470,976	\$ 1,278,646	\$ 928,081
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 853,393	\$ 871,123	\$ 781,641	\$ 646,381
Contributions in relation to the contractually required contribution	<u>(853,393)</u>	<u>(871,123)</u>	<u>(781,641)</u>	<u>(646,381)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center's covered-employee payroll	\$ 6,095,664	\$ 6,222,307	\$ 6,012,623	\$ 4,972,162
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 714,209	\$ 747,058	\$ 691,338	\$ 644,891	\$ 616,332	\$ 559,810
<u>(714,209)</u>	<u>(747,058)</u>	<u>(691,338)</u>	<u>(644,891)</u>	<u>(616,332)</u>	<u>(559,810)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,493,915	\$ 5,746,600	\$ 5,317,985	\$ 4,960,700	\$ 4,741,015	\$ 4,306,231
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO**

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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



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

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board of Education:

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, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio, (the Center) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 17, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the 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 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 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 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 Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the 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 style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 17, 2017



Dave Yost • Auditor of State

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER

GEAUGA 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
MAY 9, 2017**