

Lake County Educational Service Center



Basic Financial Statements

June 30, 2016



Dave Yost • Auditor of State

Board of Education
Lake County Educational Service Center
8221 Auburn Road
Concord Township, Ohio 44077

We have reviewed the *Independent Auditor's Report* of the Lake County Educational Service Center, Lake County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lake County Educational Service Center is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

January 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Lake County Educational Service Center
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center (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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Plattensburg & Associates, Inc.

Plattensburg & Associates, Inc.
Cincinnati, Ohio
December 12, 2016

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

The discussion and analysis of the Lake County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2016. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Net position of governmental activities decreased \$611,079 in fiscal year 2016.
- General revenues accounted for \$6,469,346 in revenue or 33% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$12,866,746 or 67% of total revenues of \$19,356,092.
- The Center had \$19,967,171 in expenses related to governmental activities; \$12,886,746 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$6,469,346 were also used to provide for these programs.

Overview of the 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 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 Center, presenting both an aggregate view of the 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 Center's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and the Lake County Financing District Fund are the major funds of the Center.

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Government-wide Financial Statements answers this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

These two statements report the Center's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

In the Government-wide Financial Statements, the Center presents:

- **Governmental Activities** – Most of the Center's programs and services are reported here including instruction, support services, and operation of non-instructional services.

Fund Financial Statements

The analysis of the Center's major funds begins on the balance sheet. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

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

Proprietary Fund - When services are provided to another department of the Center, the service is reported as an internal service fund. The Center has one internal service fund.

Fiduciary Funds - Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

The Center as a Whole

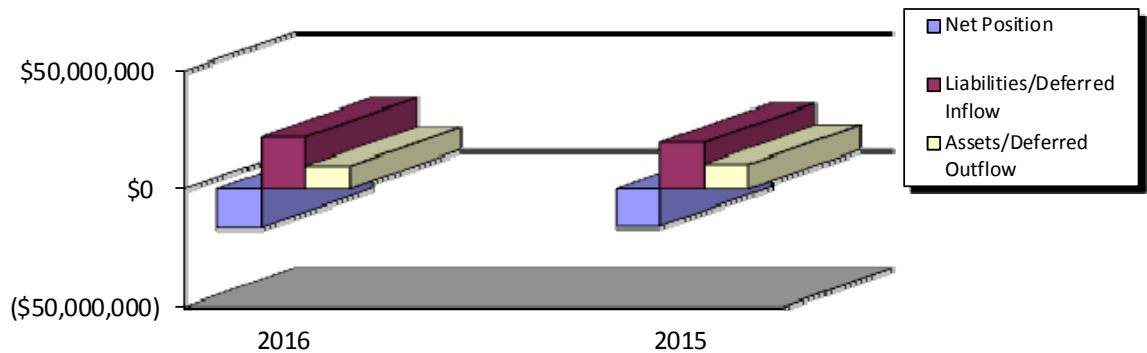
As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2016 compared to 2015:

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Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 1
Net Position

| | Governmental Activities | |
|---|-------------------------|-----------------------|
| | 2016 | 2015 |
| Assets: | | |
| Current and Other Assets | \$9,516,329 | \$10,477,079 |
| Capital Assets | 163,451 | 44,355 |
| Total Assets | 9,679,780 | 10,521,434 |
| Deferred Outflows of Resources: | | |
| Pension | 3,192,546 | 1,354,289 |
| Total Deferred Outflows of Resources | 3,192,546 | 1,354,289 |
| Liabilities: | | |
| Other Liabilities | 1,403,057 | 1,783,021 |
| Long-Term Liabilities | 20,651,094 | 17,959,710 |
| Total Liabilities | 22,054,151 | 19,742,731 |
| Deferred Inflows of Resources: | | |
| Property Taxes | 4,653,288 | 4,577,799 |
| Pension | 2,461,424 | 3,240,651 |
| Total Deferred Inflows of Resources | 7,114,712 | 7,818,450 |
| Net Position: | | |
| Net Investment in Capital Assets | 163,451 | 44,355 |
| Restricted | 1,087,910 | 1,228,379 |
| Unrestricted | (17,547,898) | (16,958,192) |
| Total Net Position | (\$16,296,537) | (\$15,685,458) |



Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's net position was \$(16,296,537).

A portion of the Center's net position, \$1,087,910 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total net position increased due to an increase in cash and investments when comparing 2015 to 2016 which was mainly due to an increase in bank balance. Long-term liabilities decreased mainly due to a decrease in the net pension liability.

Table 2 shows the changes in net position for the fiscal year. Refer to the following section for discussion of the reasons for the change in net position during the year.

Table 2
Changes in Net Position

| | Governmental Activities | |
|---|-------------------------|-----------------------|
| | 2016 | 2015 |
| Revenues: | | |
| Program Revenues | | |
| Charges for Services and Sales | \$10,288,356 | \$11,203,520 |
| Operating Grants and Contributions | 2,598,390 | 2,820,232 |
| General Revenues: | | |
| Property Taxes | 5,431,301 | 5,387,974 |
| Grants and Entitlements | 852,593 | 1,053,735 |
| Investment Earnings | 201 | 34 |
| Other | 185,251 | 222,727 |
| Total Revenues | <u>19,356,092</u> | <u>20,688,222</u> |
| Expenses: | | |
| Instruction | 2,687,411 | 2,804,890 |
| Support Services: | | |
| Pupil and Instructional Staff | 7,054,896 | 7,362,171 |
| School Administrative, General | | |
| Administration and Fiscal | 8,944,661 | 8,205,528 |
| Operations and Maintenance | 152,362 | 118,304 |
| Pupil Transportation | 118,910 | 11,918 |
| Central | 954,764 | 782,154 |
| Operation of Non-Instructional Services | <u>54,167</u> | <u>24,380</u> |
| Total Expenses | <u>19,967,171</u> | <u>19,309,345</u> |
| Change in Net Position | (611,079) | 1,378,877 |
| Net Position - Beginning of Year | <u>(15,685,458)</u> | <u>(17,064,335)</u> |
| Net Position - End of Year | <u>(\$16,296,537)</u> | <u>(\$15,685,458)</u> |

Lake County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Governmental Activities

The Center revenues are mainly from charges for services and sales, operating grants and grants and entitlements comprising 71% of the Center's revenues for governmental activities.

Instruction comprises 13.5% of governmental program expenses. Support services were 86.3% of governmental program cash expenses. The remaining program expenses were .2%.

Charges for services increased mainly due to an increase in contract service monies from other districts. Total expenses increased mainly due to an increase in instruction expenses which is mainly due to an increase in personnel costs and general inflationary factors.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by charges for services and sales.

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|--|------------------------|---------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Instruction | \$2,687,411 | \$2,804,890 | \$3,112,020 | \$4,406,728 |
| Support Services: | | | | |
| Pupil and Instructional Staff | 7,054,896 | 7,362,171 | (2,953,043) | (3,159,290) |
| School Administrative, General Administration, and Fiscal Operations and Maintenance | 8,944,661 | 8,205,528 | (6,696,974) | (6,142,621) |
| Pupil Transportation | 152,362 | 118,304 | (79,582) | (55,105) |
| Central | 118,910 | 11,918 | (3,287) | (3,980) |
| Operation of Non-Instructional Services | 954,764 | 782,154 | (460,566) | (356,191) |
| Extracurricular Activities | 54,167 | 24,380 | (52,322) | (12,066) |
| | 0 | 0 | 53,329 | 36,932 |
| Total Expenses | <u>\$19,967,171</u> | <u>\$19,309,345</u> | <u>(\$7,080,425)</u> | <u>(\$5,285,593)</u> |

The Center's Funds

The Center has two major governmental funds: the General Fund and the Lake County Financing District Fund.

General Fund: Fund balance at June 30, 2016 was \$2,319,289. The net change in fund balance was \$(514,575). The decrease in fund balance was a result of a decrease in tuition and fees revenue.

Lake County Financing District Fund: Fund balance at June 30, 2016 was \$358,885. The net change in fund balance was \$(61,877). The decrease in fund balance was a result of a decrease in intergovernmental revenue.

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2016 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations except for the Lake County Financing District fund, which is required to be presented since the fund collects property tax revenue.

Lake County Educational Service Center, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the Center had invested in equipment. Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

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

| | <u>Governmental Activities</u> | |
|--------------------------|--------------------------------|------------------------|
| | <u>2016</u> | <u>2015</u> |
| Equipment | <u>\$163,451</u> | <u>\$44,355</u> |
| Total Net Capital Assets | <u><u>\$163,451</u></u> | <u><u>\$44,355</u></u> |

Overall, capital assets increased due to purchases being more than fiscal year 2016 depreciation expense.

See Note 6 to the Basic Financial Statements for further details on the Center’s capital assets.

Debt

At June 30, 2016, the Center had no debt obligations outstanding.

Economic Outlook

The 2010-11 biennial budget (Am. Sub. HBI of the 128th General Assembly) established another new funding formula called the Evidence-Based Model (EBM). Am. Sub. HB 153 of the 129th General Assembly repealed the EBM and implemented a temporary funding formula, the Bridge Formula, for the 12-13 school year as a new funding formula was developed. The State revised the funding model in June, 2013 and adopted HB 59, the FY 14 and FY 15 biennium budget which again changed our funding formula, but not our funding.

All of the Center’s financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center’s finances, the Center’s management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center’s Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center’s finances and to show the Center’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherry Williamson, Treasurer at Lake County Educational Service Center.

Lake County Educational Service Center, Ohio
Statement of Net Position
June 30, 2016

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$3,131,565 |
| Restricted Cash and Investments | 3,901 |
| Receivables (Net): | |
| Taxes | 5,408,229 |
| Accounts | 649,201 |
| Intergovernmental | 320,181 |
| Prepays | 3,252 |
| Depreciable Capital Assets, Net | <u>163,451</u> |
| Total Assets | <u>9,679,780</u> |
| Deferred Outflows of Resources: | |
| Pension | <u>3,192,546</u> |
| Total Deferred Outflows of Resources | <u>3,192,546</u> |
| Liabilities: | |
| Accounts Payable | 118,311 |
| Accrued Wages and Benefits | 1,284,746 |
| Long-Term Liabilities: | |
| Due Within One Year | 45,909 |
| Due In More Than One Year | |
| Net Pension Liability | 20,552,642 |
| Other Amounts | <u>52,543</u> |
| Total Liabilities | <u>22,054,151</u> |
| Deferred Inflows of Resources: | |
| Property Taxes | 4,653,288 |
| Pension | <u>2,461,424</u> |
| Total Deferred Inflows of Resources | <u>7,114,712</u> |
| Net Position: | |
| Net Investment in Capital Assets | 163,451 |
| Restricted for: | |
| Federal Grants | 222,004 |
| Lake County Financing District | 754,942 |
| Other Purposes | 110,964 |
| Unrestricted | <u>(17,547,898)</u> |
| Total Net Position | <u><u>(\$16,296,537)</u></u> |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2016

| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|-----------------------------------|---------------------------------------|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$985,377 | \$615,050 | \$156,313 | (\$214,014) |
| Special | 1,515,357 | 4,360,542 | 0 | 2,845,185 |
| Vocational | 0 | 493,568 | 0 | 493,568 |
| Other | 186,677 | 27,307 | 146,651 | (12,719) |
| Support Services: | | | | |
| Pupil | 5,454,835 | 2,695,557 | 7,068 | (2,752,210) |
| Instructional Staff | 1,600,061 | 327,021 | 1,072,207 | (200,833) |
| General Administration | 6,490,034 | 6,347 | 1,026,590 | (5,457,097) |
| School Administration | 1,566,578 | 715,565 | 47,986 | (803,027) |
| Fiscal | 888,049 | 404,307 | 46,892 | (436,850) |
| Operations and Maintenance | 152,362 | 72,780 | 0 | (79,582) |
| Pupil Transportation | 118,910 | 115,623 | 0 | (3,287) |
| Central | 954,764 | 399,515 | 94,683 | (460,566) |
| Operation of Non-Instructional Services | 54,167 | 1,845 | 0 | (52,322) |
| Extracurricular Activities | 0 | 53,329 | 0 | 53,329 |
| Total Governmental Activities | \$19,967,171 | \$10,288,356 | \$2,598,390 | (7,080,425) |
| General Revenues: | | | | |
| Property Taxes Levied for: | | | | |
| | | | | 5,431,301 |
| | | | | 852,593 |
| | | | | 14,388 |
| | | | | 201 |
| | | | | 170,863 |
| Total General Revenues | | | | 6,469,346 |
| Change in Net Position | | | | (611,079) |
| Net Position - Beginning of Year | | | | (15,685,458) |
| Net Position - End of Year | | | | (\$16,296,537) |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Balance Sheet
Governmental Funds
June 30, 2016

| | General | Lake County Financing District | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|-----------------------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in Pooled Cash and Investments | \$2,910,832 | \$1 | \$170,020 | \$3,080,853 |
| Restricted Cash and Investments | 3,901 | 0 | 0 | 3,901 |
| Receivables (Net): | | | | |
| Taxes | 0 | 5,408,229 | 0 | 5,408,229 |
| Accounts | 649,201 | 0 | 0 | 649,201 |
| Intergovernmental | 3,000 | 0 | 317,181 | 320,181 |
| Interfund | 24,825 | 0 | 0 | 24,825 |
| Prepays | 2,932 | 0 | 320 | 3,252 |
| Total Assets | 3,594,691 | 5,408,230 | 487,521 | 9,490,442 |
| Liabilities: | | | | |
| Accounts Payable | 99,211 | 0 | 15,630 | 114,841 |
| Accrued Wages and Benefits | 1,162,433 | 0 | 122,313 | 1,284,746 |
| Compensated Absences | 13,758 | 0 | 0 | 13,758 |
| Interfund Payable | 0 | 0 | 24,825 | 24,825 |
| Total Liabilities | 1,275,402 | 0 | 162,768 | 1,438,170 |
| Deferred Inflows of Resources: | | | | |
| Property Taxes | 0 | 5,049,345 | 0 | 5,049,345 |
| Grants and Other Taxes | 0 | 0 | 214,340 | 214,340 |
| Total Deferred Inflows of Resources | 0 | 5,049,345 | 214,340 | 5,263,685 |
| Fund Balances: | | | | |
| Nonspendable | 6,833 | 0 | 320 | 7,153 |
| Restricted | 0 | 358,885 | 120,333 | 479,218 |
| Assigned | 64,144 | 0 | 0 | 64,144 |
| Unassigned | 2,248,312 | 0 | (10,240) | 2,238,072 |
| Total Fund Balances | 2,319,289 | 358,885 | 110,413 | 2,788,587 |
| Total Liabilities, Deferred Inflows and Fund Balances | \$3,594,691 | \$5,408,230 | \$487,521 | \$9,490,442 |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2016

| | | |
|--|--------------------|------------------------------|
| Total Governmental Fund Balance | | \$2,788,587 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Capital assets used in the operation of Governmental Funds | | 163,451 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | |
| Delinquent Property Taxes | \$396,057 | |
| Intergovernmental | <u>214,340</u> | |
| | | 610,397 |
| An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | |
| Internal Service Net Position | | 47,242 |
| Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. | | |
| Compensated Absences | | (84,694) |
| Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources related to pensions | 3,192,546 | |
| Deferred inflows of resources related to pensions | <u>(2,461,424)</u> | |
| | | 731,122 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Net Pension Liability | | <u>(20,552,642)</u> |
| Net Position of Governmental Activities | | <u><u>(\$16,296,537)</u></u> |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

| | General | Lake County Financing District | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|-----------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Property and Other Taxes | \$0 | \$5,399,929 | \$0 | \$5,399,929 |
| Tuition and Fees | 4,116,807 | 0 | 0 | 4,116,807 |
| Investment Earnings | 201 | 0 | 0 | 201 |
| Intergovernmental | 852,593 | 1,028,966 | 1,687,024 | 3,568,583 |
| Extracurricular Activities | 55,779 | 0 | 0 | 55,779 |
| Contract Services | 6,114,470 | 0 | 0 | 6,114,470 |
| Other Revenues | 186,552 | 0 | 0 | 186,552 |
| Total Revenues | 11,326,402 | 6,428,895 | 1,687,024 | 19,442,321 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 842,792 | 0 | 155,840 | 998,632 |
| Special | 1,514,647 | 0 | 0 | 1,514,647 |
| Other | 41,012 | 0 | 145,848 | 186,860 |
| Support Services: | | | | |
| Pupil | 5,399,413 | 0 | 7,361 | 5,406,774 |
| Instructional Staff | 426,603 | 0 | 1,177,873 | 1,604,476 |
| General Administration | 21,529 | 6,465,401 | 2,615 | 6,489,545 |
| School Administration | 1,489,229 | 0 | 58,373 | 1,547,602 |
| Fiscal | 817,119 | 25,371 | 45,029 | 887,519 |
| Operations and Maintenance | 144,323 | 0 | 0 | 144,323 |
| Pupil Transportation | 235,830 | 0 | 0 | 235,830 |
| Central | 856,257 | 0 | 97,382 | 953,639 |
| Operation of Non-Instructional Services | 52,223 | 0 | 0 | 52,223 |
| Total Expenditures | 11,840,977 | 6,490,772 | 1,690,321 | 20,022,070 |
| Net Change in Fund Balance | (514,575) | (61,877) | (3,297) | (579,749) |
| Fund Balance - Beginning of Year | 2,833,864 | 420,762 | 113,710 | 3,368,336 |
| Fund Balance - End of Year | \$2,319,289 | \$358,885 | \$110,413 | \$2,788,587 |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Funds (\$579,749)

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

| | | |
|--|-----------------|---------|
| Capital assets used in governmental activities | \$140,149 | |
| Depreciation Expense | <u>(21,053)</u> | 119,096 |

Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

| | | |
|---|--------------------|----------|
| District pension contributions | \$1,020,874 | |
| Cost of benefits earned net of employee contributions | <u>(1,091,926)</u> | (71,052) |

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

| | | |
|---------------------------|------------------|----------|
| Delinquent Property Taxes | \$31,372 | |
| Intergovernmental | <u>(117,601)</u> | (86,229) |

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

| | | |
|----------------------|--|----------|
| Compensated Absences | | (10,135) |
|----------------------|--|----------|

The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

| | | |
|---|--|---------------|
| Change in Net Position - Internal Service Funds | | <u>16,990</u> |
|---|--|---------------|

| | | |
|---|--|---------------------------|
| Change in Net Position of Governmental Activities | | <u><u>(\$611,079)</u></u> |
|---|--|---------------------------|

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2016

| | <u>Governmental Activities- Internal Service Fund</u> |
|---------------------------------------|---|
| Current Assets: | |
| Equity in Pooled Cash and Investments | <u>\$50,712</u> |
| Total Current Assets | <u>50,712</u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | <u>3,470</u> |
| Total Current Liabilities | <u>3,470</u> |
| Net Position: | |
| Unrestricted | <u>47,242</u> |
| Total Net Position | <u>\$47,242</u> |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2016

| | <u>Governmental Activities- Internal Service Fund</u> |
|----------------------------------|---|
| Operating Revenues: | |
| Other Revenues | <u>\$45,777</u> |
| Total Operating Revenues | <u>45,777</u> |
| Operating Expenses: | |
| Personal Services | 100 |
| Materials and Supplies | 885 |
| Purchased Services | <u>27,802</u> |
| Total Operating Expenses | <u>28,787</u> |
| Change in Net Position | 16,990 |
| Net Position - Beginning of Year | <u>30,252</u> |
| Net Position - End of Year | <u><u>\$47,242</u></u> |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2016

| | <u>Governmental Activities- Internal Service Fund</u> |
|--|---|
| Cash Flows from Operating Activities: | |
| Cash Received from Customers | \$45,777 |
| Cash Payments to Employees | (100) |
| Cash Payments to Suppliers | <u>(32,553)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>13,124</u> |
| Net Increase (Decrease) in Cash and Cash Equivalent | 13,124 |
| Cash and Cash Equivalents - Beginning of Year | <u>37,588</u> |
| Cash and Cash Equivalents - End of Year | <u>50,712</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | 16,990 |
| Changes in Assets & Liabilities: | |
| Increase (Decrease) in Payables | <u>(3,866)</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$13,124</u></u> |

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 - Description of the Center and Reporting Entity

The Lake County Educational Service Center (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Riverside Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District. The Center also serves two city school districts, Wickliffe City School District and Willoughby-East Lake City School District as well as one exempted school district, Fairport Harbor Exempted Village School District.

The Center employed 141 certificated employees and 98 non-certificated employees.

Financial Reporting Entity

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District have been included in the accompanying financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board; therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District; however the Financing District is reported as a special revenue fund.

The Center is associated with four organizations, two jointly governed organization and two insurance purchasing pools. These organizations are the Lake Geauga Computer Association, Ohio Schools Council Association, the Lake County Schools Council of Governments' Health Care Benefits Program and Sheakley. Information about these organizations is discussed in the notes to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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.

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Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Measurement Focus

Government-wide Financial Statements

The 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.

The government-wide 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 Center are included on the statement of net position. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the 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 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 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 Center.

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Fund Accounting

The 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 functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Center classifies each fund as either governmental, proprietary or fiduciary.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Governmental Funds

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, deferred outflows of resources, liabilities and deferred inflows of resources is reported as fund balance. The following are the Center's major governmental funds:

General Fund - The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Lake County Financing District – The Lake County Financing District Fund was created for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

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

Proprietary Fund

Certain Center funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. Proprietary funds are classified as either enterprise funds or internal service funds. The Center does not have any enterprise funds.

Internal Service Fund – An internal service fund accounts for the financing of services provided by one department or agency to other Center departments or agencies or to other governments, on a cost reimbursement basis. The Center's internal service fund accounts for teachers' training for special education teachers, and fingerprinting for the local school districts on a cost reimbursement basis.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 Center, available means expected to be received within sixty days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: contract services, grants and interest.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include property taxes, grants and other taxes and pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 8.)

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Equity in Pooled Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the basic financial statements.

During fiscal year 2016, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

The Center has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2016.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue during 2016 amounted to \$201 in the General fund.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$2,500. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|--------------------|------------------------|
| Equipment | 3 - 10 years |

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.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds and estimated on the Center's past experience of making termination payments.

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

| <u>Vacation</u> | <u>Certified</u> | <u>Administrators</u> | <u>Non-Certificated</u> |
|-------------------------|---|---|--|
| How Earned | Not eligible unless stated in contract | Per contract | 10-25 days depending on length of service pending on length of service |
| Maximum Accumulation | Not eligible unless stated in contract | Non-cumulative unless stated in contract | 10 days |
| Vested | Not applicable or as earned | As earned | As earned |
| Termination Entitlement | Not applicable or paid upon termination | Paid upon termination or separation | Paid upon termination or separation |
| <u>Sick Leave</u> | <u>Certified</u> | <u>Administrators</u> | <u>Non-Certificated</u> |
| How Earned | 1-1/4 days per month of employment (15 days per year) | 1 1/4 days per month of employment (15 days per year) | 1 1/4 days per month of employment (15 days per year) |

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| | | | |
|-------------------------|---|---|---|
| Maximum Accumulation | The number of days worked in the year based based on contract | The number of days worked in the year based on contract | The number of days worked in the year based on contract |
| Vested | As earned | As earned | As earned |
| Termination Entitlement | 120 days | 120 days | 120 days |

Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center’s \$1,087,910 in restricted net position, none were restricted by enabling legislation.

Fund Balance

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

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the Center’s formal purchasing procedure by the Treasurer.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenditures for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. 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 financial statements.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities column on the Statement of Net Position.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Center, these revenues are sales for teacher’s training and finger printing. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenue and expenses not meeting the definition of operating are reported as non-operating.

Budgetary Process

Except for the Lake County Financing District fund, which is required to be presented since it collects property tax revenue, no budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are not required to prepare a budget.

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.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of the other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unclaimed monies.

Note 3 - Equity in Pooled Cash and Investments

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio or other Ohio governments.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

- (7) Commercial paper and banker’s acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Center’s deposits may not be returned to it. The Center’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged pool of securities. As of June 30, 2016, \$2,849,581 of the Center’s bank balance of \$3,099,581 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Center’s name.

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

Investments

Investments are reported at fair value. As of June 30, 2016, the Center had the following investments:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-----------|-------------------|--|
| STAR Ohio | <u>\$67,121</u> | 0.15 |

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2016. STAR Ohio is reported at its share price.

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of Credit Risk – The Center's investment policy allows investments in Federal Agencies or Instrumentalities. At year end, the Center's allocations of investments were as follows: STAR Ohio (100%).

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center's securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

Note 4 - Lake County School Financing District

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Note 5 – Receivables

Receivables at June 30, 2016, consisted of taxes, accounts, intergovernmental grants and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Note 6 - Capital Assets

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|------------------|------------|-------------------|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated | | | | |
| Equipment | \$155,415 | \$140,149 | \$0 | \$295,564 |
| Totals at Historical Cost | 155,415 | 140,149 | 0 | 295,564 |
| Less Accumulated Depreciation: | | | | |
| Equipment | 111,060 | 21,053 | 0 | 132,113 |
| Total Accumulated Depreciation | 111,060 | 21,053 | 0 | 132,113 |
| Governmental Activities Capital Assets, Net | <u>\$44,355</u> | <u>\$119,096</u> | <u>\$0</u> | <u>\$163,451</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-----------------|
| Instruction: | \$595 |
| Support Services: | |
| Instructional Staff | 2,100 |
| School Administration | 2,866 |
| Pupil Transportation | 13,464 |
| Central | 2,028 |
| Total Depreciation Expense | <u>\$21,053</u> |

Note 7 - Long-Term Liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due In One Year |
|--|----------------------|--------------------|--------------------|---------------------|--------------------|
| Governmental Activities: | | | | | |
| Net Pension Liability: | | | | | |
| STRS | \$15,032,660 | \$3,018,516 | \$918,215 | \$17,132,961 | \$0 |
| SERS | 2,831,446 | 825,441 | 237,206 | 3,419,681 | 0 |
| Total Net Pension Liability | 17,864,106 | 3,843,957 | 1,155,421 | 20,552,642 | 0 |
| Compensated Absences | 95,604 | 40,318 | 37,470 | 98,452 | 45,909 |
| Total Governmental Activities Long-Term Liabilities | <u>\$17,959,710</u> | <u>\$3,884,275</u> | <u>\$1,192,891</u> | <u>\$20,651,094</u> | <u>\$45,909</u> |

Compensated Absences will be paid from the fund from which the employee is paid.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

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.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire on or after August 1, 2017 |
|------------------------------|--|--|
| Full Benefits | Any age with 30 years of service credit Age 65 with 5 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, 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. 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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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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 allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Center's contractually required contribution to SERS was \$265,424 for fiscal year 2016. Of this amount \$43,438 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – 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 increased 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.

Lake County Educational Service Center, Ohio
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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, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was \$893,081 for fiscal year 2016. Of this amount \$94,193 is reported as accrued wages and benefits.

Net Pension Liability

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 Center's proportion of the net pension liability was based on the 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:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|--------------|--------------|
| Proportionate Share of the Net Pension Liability | \$3,419,681 | \$17,132,961 | \$20,552,642 |
| Proportion of the Net Pension Liability | 0.05993030% | 0.06199267% | |
| Pension Expense | 258,390 | 766,379 | 1,024,769 |

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
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| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|-------------------------|---------------------------|---------------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$53,348 | \$780,602 | \$833,950 |
| Net difference between projected and actual earnings on pension plan investments | 255,898 | 860,038 | 1,115,936 |
| Changes in employer proportion and differences between contributions and proportionate share of contributions | 1,716 | 444 | 2,160 |
| Changes in employer proportionate share of net pension liability | 176,277 | 43,350 | 219,627 |
| Center contributions subsequent to the measurement date | <u>221,985</u> | <u>798,888</u> | <u>1,020,873</u> |
| Total Deferred Outflows of Resources | <u><u>\$709,224</u></u> | <u><u>\$2,483,322</u></u> | <u><u>\$3,192,546</u></u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$336,484 | \$2,083,692 | \$2,420,176 |
| Changes in employer proportion and differences between contributions and proportionate share of contributions | <u>32,719</u> | <u>8,529</u> | <u>41,248</u> |
| Total Deferred Inflows of Resources | <u><u>\$369,203</u></u> | <u><u>\$2,092,221</u></u> | <u><u>\$2,461,424</u></u> |

\$1,020,873 reported as deferred outflows of resources related to pension resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|-------------------------|---------------------------|---------------------------|
| Fiscal Year Ending June 30: | | | |
| 2017 | \$74,756 | (\$258,265) | (\$183,509) |
| 2018 | 74,756 | (258,265) | (183,509) |
| 2019 | 74,756 | (258,265) | (183,509) |
| 2020 | <u>(106,232)</u> | <u>367,008</u> | <u>260,776</u> |
| Total | <u><u>\$118,036</u></u> | <u><u>(\$407,787)</u></u> | <u><u>(\$289,751)</u></u> |

Lake County Educational Service Center, Ohio
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Actuarial Assumptions - SERS

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

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

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

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

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

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

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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| <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 | <u>15.00</u> | 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 Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| Center's proportionate share of the net pension liability | \$4,741,869 | \$3,419,681 | \$2,306,290 |

Actuarial Assumptions - STRS

The total pension liability in the July 1, 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, including inflation |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

Lake County Educational Service Center, Ohio
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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 Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the 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 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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| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| Center's proportionate share of the net pension liability | \$23,798,975 | \$17,132,961 | \$11,495,852 |

Note 9 - Post Employment Benefits

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0%. 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 Center's surcharge obligation was \$30,201.

The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$46,401, and \$29,028, respectively. For fiscal year 2016, 100 percent has been contributed. The full amount has been contributed for fiscal years 2015 and 2014.

State Teachers Retirement System

Plan Description – The 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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
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participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$65,180, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

Note 10 - Contingent Liabilities

Grants

The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2016.

Note 11 - Jointly Governed Organizations

The Lake Geauga Computer Association is a jointly governed organization consisting of 19 school districts in Lake, Geauga, Medina and Cuyahoga Counties. 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 executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school Center is limited to its voting rights as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8221 Auburn Road, Painesville, OH 44077.

The Ohio Schools Council Association (Council) is a jointly governed organization among 199 school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school Center is limited to its representation on the Board. In fiscal year 2015, the Center made no payments to the Council. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6393 Oak Tree Boulevard, Independence, OH 44131.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
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Note 12 - Claims Servicing Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program – The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan’s business and affairs are conducted by a three member Board of Directors elected from the HCBP’s assembly.

Note 13 – Sheakley Uniservice Group Retrospective Rating Program

The Center participates in the Ohio School Boards Association Workers’ Compensation Group Retrospective Rating Program (GRRP), an insurance rating pool. The intent of the GRRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRRP. The workers’ compensation experience of the participating school districts and centers is calculated as one experience and a common premium rate is applied to all school districts and centers in the GRRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the GRRP.

A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRRP. Participation in the GRRP is limited to school districts and centers that can meet the GRRP’s selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRRP.

Note 14 – Revenues

The Lake County Educational Service Center is funded by the State Board of Education from State funds in the amount of \$33.05 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center’s territory and all the Service Center’s client school districts.

Due to provisions in the State budget bill, the per pupil funding in the permanent section of law did not apply to fiscal years 2013, 2014 and 2015. Instead, the ESC received a percentage of the funding they received in previous years. For fiscal year 2016, the ESC received 76 percent of the state subsidy per pupil amount.

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

The Lake County School Financing District’s source of revenue is derived from property taxes. The Lake County Treasurer collects property tax on behalf of Perry, Painesville City, Madison and Riverside taxing districts with the county. The county Auditor periodically remits to the taxing districts their portion of the taxes collected.

Note 15 - Interfund Transactions

Interfund transactions at June 30, 2016, consisted of the following interfund receivables and interfund payables:

Lake County Educational Service Center, Ohio
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| | Interfund | |
|--------------------------|-------------------|-----------------|
| | <u>Receivable</u> | <u>Payable</u> |
| General Fund | \$24,825 | \$0 |
| Other Governmental Funds | <u>0</u> | <u>24,825</u> |
| Total All Funds | <u>\$24,825</u> | <u>\$24,825</u> |

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 16 – Accountability

The following individual funds had a deficit in fund balance at year end (includes accrual entries):

| <u>Other Governmental Funds:</u> | <u>Amount</u> |
|----------------------------------|---------------|
| Public Preschool | \$6,202 |
| Science Center | 2,013 |
| Safe Drug Free | 1,947 |

The general fund is liable for any deficit in any funds and will provide operating transfers when cash is required, not when accruals occur. On the cash basis of accounting, no funds had deficit balances.

Note 17 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| Fund Balances | General | Lake County Financing District | Other Governmental Funds | Total |
|--------------------------------|--------------------|-----------------------------------|--------------------------------|--------------------|
| Nonspendable: | | | | |
| Unclaimed Monies | \$3,901 | \$0 | \$0 | \$3,901 |
| Prepays | 2,932 | 0 | 320 | 3,252 |
| Total Nonspendable | 6,833 | 0 | 320 | 7,153 |
| Restricted for: | | | | |
| Other Grants | 0 | 0 | 108,977 | 108,977 |
| IDEA | 0 | 0 | 5,502 | 5,502 |
| Progress Project | 0 | 0 | 3,867 | 3,867 |
| Food Service | 0 | 0 | 1,987 | 1,987 |
| Lake County Financing District | 0 | 358,885 | 0 | 358,885 |
| Total Restricted | 0 | 358,885 | 120,333 | 479,218 |
| Assigned to: | | | | |
| Encumbrances | 20,201 | 0 | 0 | 20,201 |
| Public School Support | 43,943 | 0 | 0 | 43,943 |
| Total Assigned | 64,144 | 0 | 0 | 64,144 |
| Unassigned (Deficit) | 2,248,312 | 0 | (10,240) | 2,238,072 |
| Total Fund Balance | \$2,319,289 | \$358,885 | \$110,413 | \$2,788,587 |

Note 18 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the District has implemented Governmental Accounting Standards Board (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 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

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Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

GASB Statement No. 76 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 District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it 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 District.

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REQUIRED SUPPLEMENTARY INFORMATION

Lake County Educational Service Center , Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2016

| | Lake County Financing District Fund | | | |
|---|---|------------------|------------------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Taxes | \$5,461,805 | \$5,461,805 | \$5,461,805 | \$0 |
| Intergovernmental | 1,028,966 | 1,028,966 | 1,028,966 | 0 |
| Total Revenues | 6,490,771 | 6,490,771 | 6,490,771 | 0 |
| Expenditures: | | | | |
| Current: | | | | |
| Support Services: | | | | |
| General Administration | 6,465,400 | 6,465,400 | 6,465,400 | 0 |
| Fiscal | 25,371 | 25,371 | 25,371 | 0 |
| Total Expenditures | 6,490,771 | 6,490,771 | 6,490,771 | 0 |
| Net Change in Fund Balance | 0 | 0 | 0 | 0 |
| Fund Balance - Beginning of Year (includes prior year encumbrances appropriated) | 0 | 0 | 0 | 0 |
| Fund Balance - End of Year | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

See accompanying notes to the required supplementary information.

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June, 30, 2016

Note 1 – Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education.

The budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District Fund.

The Center has an annual appropriation for the funds of the Lake County Educational Service Center and the Treasurer uses it to set annual limits on expenditures plus encumbrances at the fund level. The appropriation is subject to changes throughout the year with the restriction that appropriations may not exceed resources by fund. The budget is employed as a management control device during the year for all funds.

The budget process described below applies to the Lake County Financing District Fund of the Lake County Educational Service Center.

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District as a special revenue fund and is not applicable to the Lake County Educational Service Center.

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 fiscal year.

The county budget commission certifies its actions to the Center by March 1. As part of this certification, the Center receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Center must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter appropriations within a fund must be approved by the Board of Education.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during the fiscal year.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2015

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control.

Net Change in Fund Balances

| | Lake County Financing District |
|----------------------|-----------------------------------|
| GAAP Basis | (\$61,877) |
| Revenue Accruals | 61,876 |
| Expenditure Accruals | <u>1</u> |
| Budget Basis | <u><u>\$0</u></u> |

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

| | 2015 | 2014 | 2013 |
|---|--------------|--------------|--------------|
| District's Proportion of the Net Pension Liability | 0.06199267% | 0.06180313% | 0.06180313% |
| District's Proportionate Share of the Net Pension Liability | \$17,132,961 | \$15,032,660 | \$17,887,060 |
| District's Covered-Employee Payroll | \$6,467,900 | \$6,800,308 | \$6,817,759 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 252.40% | 226.80% | 262.36% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.10% | 74.70% | 69.30% |

(1) - Information prior to 2013 is not available

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

| | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|
| District's Proportion of the Net Pension Liability | 0.05993030% | 0.05594700% | 0.05594700% |
| District's Proportionate Share of the Net Pension Liability | \$3,419,681 | \$2,831,446 | \$3,328,896 |
| District's Covered-Employee Payroll | \$2,124,150 | \$1,642,121 | \$1,549,045 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 200.53% | 173.18% | 214.90% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.16% | 71.70% | 65.52% |

(1) - Information prior to 2013 is not available

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------------|------------------|------------------|--------------------|------------------|
| Contractually Required Contribution | \$893,081 | \$905,506 | \$884,040 | \$1,068,756 | \$962,923 |
| Contributions in Relation to the Contractually Required Contribution | <u>(893,081)</u> | <u>(905,506)</u> | <u>(884,040)</u> | <u>(1,068,756)</u> | <u>(962,923)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| District Covered-Employee Payroll | \$6,379,150 | \$6,467,900 | \$6,800,308 | \$6,817,759 | \$6,631,662 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 13.00% | 15.68% | 14.52% |

| 2011 | 2010 | 2009 | 2008 | 2007 |
|-------------|-------------|-------------|-------------|-------------|
| \$950,720 | \$911,991 | \$927,638 | \$780,271 | \$724,308 |
| (950,720) | (911,991) | (927,638) | (780,271) | (724,308) |
| \$0 | \$0 | \$0 | \$0 | \$0 |
| \$6,665,189 | \$6,430,711 | \$6,426,037 | \$5,878,825 | \$5,713,385 |
| 14.26% | 14.18% | 14.44% | 13.27% | 12.68% |

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------------|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$265,424 | \$279,963 | \$227,598 | \$252,215 | \$211,926 |
| Contributions in Relation to the Contractually Required Contribution | <u>(265,424)</u> | <u>(279,963)</u> | <u>(227,598)</u> | <u>(252,215)</u> | <u>(211,926)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| District Covered-Employee Payroll | \$1,895,886 | \$2,124,150 | \$1,642,121 | \$1,549,045 | \$1,621,593 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.18% | 13.86% | 16.28% | 13.07% |

| 2011 | 2010 | 2009 | 2008 | 2007 |
|-------------|-------------|-------------|-------------|-------------|
| \$259,107 | \$250,891 | \$240,415 | \$147,512 | \$187,800 |
| (259,107) | (250,891) | (240,415) | (147,512) | (187,800) |
| \$0 | \$0 | \$0 | \$0 | \$0 |
| \$1,712,027 | \$1,640,151 | \$1,453,208 | \$1,344,330 | \$1,278,626 |
| 15.13% | 15.30% | 16.54% | 10.97% | 14.69% |

Lake County Educational Service Center



Single Audit Reports

June 30, 2016

LAKE COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

| Federal Grant/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|---|----------------------------------|---------------------------|---------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through Ohio Department of Education: | | | |
| Special Education Cluster: | | | |
| Special Education-Grants to States | 3M20 | 84.027 | \$1,072,242 |
| Special Education-Preschool Grants | 3C50 | 84.173 | <u>48,158</u> |
| Total Special Education Cluster | | | <u>1,120,400</u> |
| Special Education - State Personnel Development | 3700 | 84.323 | 57,221 |
| Race to the Top - Early Learning Challenge | 3FN0 | 84.412 | <u>17,000</u> |
| Total Department of Education | | | <u>1,194,621</u> |
| Total Federal Assistance | | | <u><u>\$1,194,621</u></u> |

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Center and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR 200, Subpart F. The Center did not elect to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Lake County Educational Service Center
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center (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, and have issued our report thereon dated December 12, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 12, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

Lake County Educational Service Center
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

Report on Compliance for Each Major Federal Program

We have audited the Lake County Educational Service Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2016. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Center, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of 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. We issued our report thereon dated December 12, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 12, 2016

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II – Findings Related to the Financial Statements Required to be reported in Accordance with GAGAS

None

Section III – Federal Award Findings and Questioned Costs

None

LAKE COUNTY EDUCATIONAL SERVICE CENTER
June 30, 2016

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

The Lake County Educational Service Center had no prior audit findings or questioned costs.



Dave Yost • Auditor of State

LAKE COUNTY EDUCATIONAL SERVICE CENTER

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 14, 2017