

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2016*

MARY WORKMAN, TREASURER



Dave Yost • Auditor of State

Board of Education
Tri-County Educational Service Center
741 Winkler Drive
Wooster, Ohio 44691

We have reviewed the *Independent Auditor's Report* of the Tri-County Educational Service Center, Wayne County, prepared by Julian & Grube, 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 Tri-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 6, 2017

This page intentionally left blank.

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	4 - 9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position - Cash Basis	10
Statement of Activities - Cash Basis	11
Fund Financial Statements:	
Statement of Assets and Fund Balances - Cash Basis - Governmental Funds	12
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities - Cash Basis	13
Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis - Governmental Funds	14
Reconciliation of the Statement of Receipts, Disbursements and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis	15
Statement of Fund Net Position - Cash Basis - Proprietary Fund	16
Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis - Proprietary Fund	17
Notes to the Basic Financial Statements.....	18 - 39
Supplemental Information:	
Schedule of Expenditures of Federal Awards.....	40
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	41 - 42
Independent Auditor’s Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	43 - 44
Schedule of Findings 2 <i>CFR</i> § 200.515	45 - 46
Corrective Action Plan 2 <i>CFR</i> § 200.511(c)	47
Summary Schedule of Prior Audit Findings 2 <i>CFR</i> § 200.515	48

This page intentionally left blank.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tri-County Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of June 30, 2016, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the Tri-County Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

We applied no procedures to *Management's Discussion & Analysis*, as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of the Tri-County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tri-County Educational Service Center's internal control over financial reporting and compliance.



Julian & Grube, Inc.
November 22, 2016

This page is intentionally blank.

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

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position decreased \$237,568, which represents a 4 percent decrease from fiscal year 2015.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole ESC. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2016, the general fund is the ESC's most significant fund.

Basis of Accounting

The ESC has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The statement of net position and the statement of activities answer this question.

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

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

In the statement of net position and the statement of activities, governmental activities include the ESC's programs and services, including instruction, support services, and operation of non-instructional services.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major fund begins on page 9. Fund financial reports provide detailed information about the ESC's major fund. The ESC uses many funds to account for financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental fund is the general fund.

Governmental Funds - Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Proprietary Fund - The ESC maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

Reporting the ESC's Fiduciary Responsibilities

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the ESC. These funds are not reflected in the government-wide financial statements because the resources are not available to support the ESC's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds.

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

The ESC as a Whole

Table 1 provides a summary of the ESC's net position for fiscal year 2016 compared to 2015.

(Table 1)
Net Position –Cash Basis

	Governmental Activities	
	2016	2015
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 4,282,400	\$ 4,332,099
Cash and Cash Equivalents with Fiscal Agent	1,605,864	1,793,733
<i>Total Assets</i>	\$ 5,888,264	\$ 6,125,832
Net Position		
Restricted for Other Purposes	\$ 62,436	\$ 49,864
Unrestricted	5,825,828	6,075,968
<i>Total Net Position</i>	\$ 5,888,264	\$ 6,125,832

Net position of the governmental activities decreased \$237,568, which represents a 4 percent decrease from fiscal year 2015.

A portion of the ESC's net position, \$62,436 or 1 percent, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$5,825,828 may be used to meet the ESC's ongoing obligations.

This space intentionally blank

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

Table 2 shows the changes in net position for fiscal year 2016 as compared to fiscal year 2015.

(Table 2)
Changes in Net Position –Cash Basis

	Governmental Activities	
	2016	2015
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 10,046,699	\$ 10,522,734
Operating Grants, Contributions and Interest	1,532,852	1,577,593
<i>Total Program Receipts</i>	11,579,551	12,100,327
<i>General Receipts</i>		
Grants and Entitlements not Restricted to		
Specific Programs	833,726	849,485
Investment Earnings	16,877	13,056
Miscellaneous	32,734	71,982
<i>Total General Receipts</i>	883,337	934,523
<i>Total Receipts</i>	12,462,888	13,034,850
<i>Program Disbursements</i>		
Instruction:		
Regular	1,305,796	1,069,158
Special	3,335,748	3,433,823
Adult/Continuing Education	19,628	30,662
Other	0	3,666
Support Services:		
Pupils	2,559,893	3,113,717
Instructional Staff	418,729	533,782
Board of Education	59,278	70,107
Administration	880,118	1,052,488
Fiscal	342,923	392,428
Business	14,455	26,615
Operation and Maintenance of Plant	273,264	277,325
Pupil Transportation	0	3,452
Central	2,865,712	2,537,203
Operation of Non-Instructional Services:		
Community Services	624,912	643,984
<i>Total Program Disbursements</i>	12,700,456	13,188,410
<i>Change in Net Position</i>	(237,568)	(153,560)
<i>Net Position Beginning of Year</i>	6,125,832	6,279,392
<i>Net Position End of Year</i>	\$ 5,888,264	\$ 6,125,832

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

The ESC's charges for services and sales receipts were \$476,035 lower than fiscal year 2015 due to a reduction in the services provided to the member districts.

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

Governmental Activities

Total governmental disbursements of \$12,700,456 were offset by program receipts of \$11,579,551 and general receipts of \$883,337.

Program receipts supported 91 percent of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from contracted fees for services provided to other entities. This receipt source represents 81 percent of total governmental receipts.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

(Table 3)
Governmental Activities –Cash Basis

	<u>Total Costs of Services</u>		<u>Net Costs of Services</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<i>Program Disbursements</i>				
<i>Instruction:</i>				
Regular	\$ 1,305,796	\$ 1,069,158	\$ 246,122	\$ 109,652
Special	3,335,748	3,433,823	302,877	(99,257)
Adult/Continuing Education	19,628	30,662	(174,179)	(166,433)
Other	0	3,666	0	3,666
<i>Support Services:</i>				
Pupils	2,559,893	3,113,717	504,398	514,513
Instructional Staff	418,729	533,782	127,115	101,737
Board of Education	59,278	70,107	31,714	14,561
Administration	880,118	1,052,488	228,955	209,684
Fiscal	342,923	392,428	67,687	79,156
Business	14,455	26,615	7,733	5,390
Operation and Maintenance of Plant	273,264	277,325	139,017	56,832
Pupil Transportation	0	3,452	0	1,339
Central	2,865,712	2,537,203	586,903	350,626
<i>Operation of Non-Instructional Services:</i>				
Community Services	624,912	643,984	(947,437)	(93,383)
<i>Total</i>	<u>\$ 12,700,456</u>	<u>\$ 13,188,410</u>	<u>\$ 1,120,905</u>	<u>\$ 1,088,083</u>

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

The ESC's Funds

The ESC's governmental funds are accounted for using the cash basis of accounting.

The ESC's governmental funds reported a combined fund balance of \$4,282,400 which is lower than the prior year balance of \$4,332,099.

The general fund's fund balance decreased \$40,832 in 2016.

Current Issues

The Tri-County ESC is dedicated to serving its local school districts by providing valuable services as needed. The Board and administration closely monitor its receipts and disbursements in accordance with Board policy to remain financially viable. While many outside factors can affect the economy, including state funding reductions to ESCs, Tri-County ESC continues to provide the best services possible and to be fiscally responsible.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Workman, Treasurer, Tri-County ESC, 741 Winkler Drive, Wooster, Ohio 44691, or by calling 330-345-6771.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Net Position - Cash Basis
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,282,400
Cash and Cash Equivalents with Fiscal Agent	<u>1,605,864</u>
<i>Total Assets</i>	<u><u>\$ 5,888,264</u></u>
Net Position	
Restricted for Other Purposes	\$ 62,436
Unrestricted	<u>5,825,828</u>
<i>Total Net Position</i>	<u><u>\$ 5,888,264</u></u>

The accompanying notes are an integral part of the basic financial statements.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016*

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Position
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
Instruction:				
Regular	\$ 1,305,796	\$ 1,014,651	\$ 45,023	\$ (246,122)
Special	3,335,748	2,975,770	57,101	(302,877)
Adult/Continuing Education	19,628	193,807	0	174,179
Support Services:				
Pupils	2,559,893	1,884,914	170,581	(504,398)
Instructional Staff	418,729	202,088	89,526	(127,115)
Board of Education	59,278	27,564	0	(31,714)
Administration	880,118	601,076	50,087	(228,955)
Fiscal	342,923	227,996	47,240	(67,687)
Business	14,455	6,722	0	(7,733)
Operation and Maintenance of Plant	273,264	134,247	0	(139,017)
Central	2,865,712	2,278,809	0	(586,903)
Operation of Non-Instructional Services:				
Community Services	624,912	499,055	1,073,294	947,437
<i>Totals</i>	<u>\$ 12,700,456</u>	<u>\$ 10,046,699</u>	<u>\$ 1,532,852</u>	<u>(1,120,905)</u>
 General Receipts				
Grants and Entitlements not Restricted to Specific Programs				833,726
Investment Earnings				16,877
Miscellaneous				32,734
<i>Total General Receipts</i>				<u>883,337</u>
<i>Change in Net Position</i>				(237,568)
<i>Net Position Beginning of Year</i>				<u>6,125,832</u>
<i>Net Position End of Year</i>				<u>\$ 5,888,264</u>

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 4,241,403	\$ 40,997	\$ 4,282,400
Fund Balances			
Restricted	\$ 0	\$ 62,436	\$ 62,436
Committed	33,664	0	33,664
Assigned	464,770	0	464,770
Unassigned	3,742,969	(21,439)	3,721,530
<i>Total Fund Balances</i>	<u>\$ 4,241,403</u>	<u>\$ 40,997</u>	<u>\$ 4,282,400</u>

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities - Cash Basis
June 30, 2016

Total Governmental Fund Balances	\$ 4,282,400
---	--------------

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

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net position.

<u>1,605,864</u>

Net Position of Governmental Activities

<u>\$ 5,888,264</u>

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	\$ 1,906,328	\$ 460,399	\$ 2,366,727
Investment Income	8,611	0	8,611
Tuition and Fees	710,057	0	710,057
Gifts and Donations	100	0	100
Charges for Services	9,336,642	0	9,336,642
Miscellaneous	12,830	19,655	32,485
<i>Total Receipts</i>	<u>11,974,568</u>	<u>480,054</u>	<u>12,454,622</u>
Disbursements			
Current:			
Instruction:			
Regular	1,235,296	42,787	1,278,083
Special	3,222,724	49,515	3,272,239
Adult/Continuing Education	19,628	0	19,628
Support Services:			
Pupils	2,384,633	154,051	2,538,684
Instructional Staff	326,863	89,446	416,309
Board of Education	59,278	0	59,278
Administration	826,080	38,080	864,160
Fiscal	300,639	37,558	338,197
Business	14,455	0	14,455
Operation and Maintenance of Plant	273,264	0	273,264
Central	2,815,426	0	2,815,426
Operation of Non-Instructional Services:			
Community Services	608,856	5,742	614,598
<i>Total Disbursements</i>	<u>12,087,142</u>	<u>417,179</u>	<u>12,504,321</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(112,574)</u>	<u>62,875</u>	<u>(49,699)</u>
Other Financing Sources (Uses)			
Advances In	71,742	0	71,742
Advances Out	0	(71,742)	(71,742)
<i>Total Other Financing Sources (Uses)</i>	<u>71,742</u>	<u>(71,742)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(40,832)	(8,867)	(49,699)
<i>Fund Balances Beginning of Year</i>	<u>4,282,235</u>	<u>49,864</u>	<u>4,332,099</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,241,403</u>	<u>\$ 40,997</u>	<u>\$ 4,282,400</u>

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center

Wayne County, Ohio

*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016*

Net Change in Fund Balances - Total Governmental Funds	\$ (49,699)
---	-------------

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

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements).	<u>(187,869)</u>
--	------------------

<i>Change in Net Position of Governmental Activities</i>	<u>\$ (237,568)</u>
--	---------------------

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Fund
June 30, 2016

	Governmental Activities
	Internal Service Fund
Assets	
Cash and Cash Equivalents with Fiscal Agent	\$ 1,605,864
Net Position	
Unrestricted	\$ 1,605,864

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2016

	<u>Governmental Activities - Internal Service Fund</u>
Operating Receipts	
Charges for Services	<u>\$ 1,824,245</u>
Operating Disbursements	
Purchased Services	480,937
Claims	<u>1,539,443</u>
<i>Total Operating Disbursements</i>	<u>2,020,380</u>
<i>Operating Income</i>	<u>(196,135)</u>
Non-Operating Receipts	
Interest	<u>8,266</u>
<i>Change in Net Position</i>	(187,869)
<i>Net Position Beginning of Year</i>	<u>1,793,733</u>
<i>Net Position End of Year</i>	<u><u>\$ 1,605,864</u></u>

The accompanying notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 - Description of the Educational Service Center

The Tri-County Educational Service Center (the "ESC") 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 ESC is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected governing board of nine members and provides services to the public schools in Holmes, Wayne and Ashland Counties. The Board controls the ESC's instructional support services.

Reporting Entity

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

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

The ESC is associated with the Tri-County Computer Service Association (TCCSA), a jointly governed organization; the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), the Schools of Ohio Risk Sharing Authority Board (SORSA) and the Jefferson Health Plan, which are public entity risk pools. These organizations are presented in Notes 11 and 12.

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the ESC's accounting policies.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" receipts and disbursements.

The statement of net position presents the financial condition of the governmental activities of the ESC at fiscal year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the ESC's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. General receipts are receipts which are not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the ESC.

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

B. Fund Accounting

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

Governmental Funds The ESC classifies funds financed primarily from intergovernmental receipts (e.g. grants), and other exchange and nonexchange transactions as governmental funds. The following is the ESC's major governmental fund:

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

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

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Proprietary Funds The ESC classifies funds financed primarily from user charges for goods or services as proprietary. The ESC's only proprietary fund is an internal service fund.

Internal service fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the ESC on a cost reimbursement basis. The ESC's only internal service fund accounts for a self-insurance program for employee medical benefits.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. Agency funds are custodial in nature. The ESC's only fiduciary fund is an agency fund which accounts for Medicaid administrative claims. At June 30, 2016, the agency fund had no fund balance.

C. Basis of Accounting

The ESC's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the ESC's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the ESC are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC was discretionary, the ESC continued to have its Governing Board approve appropriations and estimated resources. The ESC's Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

E. Cash and Cash Equivalents

To improve cash management, all cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through ESC records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The ESC participates in the Jefferson Health Plan insurance consortium for self-insurance. These monies are held separate from the ESC's central bank account and are reflected in the financial statement as "cash and cash equivalents with fiscal agent."

During fiscal year 2016, investments were limited to investments in the State Treasury Asset Reserve of Ohio ("STAR Ohio") and a repurchasing agreement account.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2016 amounted to \$8,611, which includes \$601 assigned from other ESC funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the ESC are presented on the financial statements as cash equivalents.

F. Inventory and Prepaid Items

The ESC reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The ESC reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the ESC's cash basis of accounting.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

J. Employer Contributions to Cost-Sharing Plans

The ESC recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Fund Balance

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

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance.

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

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

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes primarily includes amounts for activities associated with assisting the instructional staff with the content and process of providing learning experiences for pupils.

The ESC's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

M. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

N. Pensions

For purposes of measuring the net pension liability, 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.

O. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2016, the ESC has (to the extent it applies to the cash basis of accounting) 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. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the ESC.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 ESC.

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 ESC.

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 ESC.

Note 3 – Accountability and Compliance

A. Accountability

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

Nonmajor Governmental Funds:	
Public School Preschool	\$ 1,488
Alternative Schools	1,546
IDEA Part B Grants	1,282
IDEA Preschool	7,704
Improving Teacher Quality	3,010
Miscellaneous Federal Grants	6,410

The general fund is liable for any deficit and provides transfers when cash is required.

B. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the ESC to prepare its annual financial report in accordance with generally accepted accounting principles. However, the ESC prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The ESC can be fined and various other administrative remedies may be taken against the ESC.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 4 - Deposits and Investments

State statute classifies monies held by the ESC into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed forty percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the ESC's name. During fiscal year 2016, the ESC and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

At fiscal year-end, the carrying amount of the ESC's deposits were \$1,849,014, which includes \$450 in cash on hand. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$1,752,807 of the ESC's bank balance of \$2,002,807 was exposed to custodial risk as discussed above and \$250,000 was covered by depository insurance.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Investments

As of June 30, 2016, the ESC had the following investments and maturities:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturity Less than 1 year</u>	<u>Total Investments</u>
Star Ohio	\$2,018,386	\$2,018,386	82.95%
Repurchase Agreement	415,000	415,000	17.05%
Total	<u>\$2,433,386</u>	<u>\$2,433,386</u>	<u>100.00%</u>

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

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

Credit Risk. The ESC’s investments in federal agency securities that underlie the repurchase agreements were rated AA+ and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAM by Standard and Poor’s. The ESC has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The ESC places no limit on the amount that may be invested in any one issuer. The table above includes the percentage to total of each investment type held by the ESC at June 30, 2016.

Funds Held by Fiscal Agent

The ESC participates in the Jefferson Health Plan for employee benefits. The amount held at fiscal year end for the employee benefit self-insurance fund was \$1,605,864. All benefit deposits are made to the consortium’s depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 5 – State Funding

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM – the total number of pupils under the ESC’s supervision) is apportioned by the State Board of Education from the local ESCs to which the ESC provides services from payments made under the State’s foundation program.

Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. If additional funding is required and if a majority of the boards of education of the participating ESCs approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating ESCs through reductions in their State foundation.

The local ESCs to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

Note 6 - Risk Management

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the ESC contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance coverage.

General liability coverage is \$15,000,000 annual aggregate/\$17,000,000 single occurrence limit and no deductible. Willis Risk Solutions is the actuary and reinsurance broker. Property coverage is provided by the pool and reinsurer Travelers Insurance Company and includes coverage for crime, employee dishonesty and inland marine. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

For fiscal year 2016, the ESC participated in the OASBO/CompManagement, Inc. Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school ESCs is tiered into groups based upon past workers’ compensation experience. Within each tiered group, a common premium rate is applied to all school ESCs within that group. Each participant pays its workers’ compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school ESCs that can meet the GRPs selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

The ESC holds all reserves including Incurred But Not Reported (IBNR), Shock Stabilization and Fluctuation reserves.

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The ESC is self-insured for employee health insurance claims, but maintains aggregate stop-loss insurance through Jefferson Health Plan. The Self-Insurance Fund pays covered claims to Jefferson Health Plan and recovers these costs from premium charges to employees and Midland Council of Governments based on calculations provided by Jefferson Health Plan’s consultant (Findley Davis, Inc.). The June 30, 2016 loss reserves estimated by the ESC’s actuary are as follows:

Internal Service Fund Cash and Cash Equivalents	\$ 1,605,864
IBNR actuarial liability	<u>(452,470)</u>
Fund Surplus	<u>\$ 1,153,394</u>

Note 7 - 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.

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

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

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

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The ESC’s contractually required contribution to SERS was \$397,957 for fiscal year 2016.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 year of qualifying service credit, or age 55 with 25 years of setirvice, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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

Tri-County Educational Service Center
Wayne County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

The ESC's contractually required contribution to STRS was \$801,093 for fiscal year 2016.

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 ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 16,166,149	\$ 4,757,550	\$ 20,923,699
Proportion of the Net Pension Liability	0.05849443%	0.08337660%	

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.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 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:

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

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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 ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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%)
ESC's proportionate share of the net pension liability	\$ 6,597,012	\$ 4,757,550	\$ 3,208,571

Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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

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

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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:

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 22,456,001	\$ 16,166,149	\$ 10,847,142

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Note 8 – Postemployment Benefits

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 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 ESC's surcharge obligation was \$40,886.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$40,886, \$60,176 and \$39,268, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

Plan Description – The ESC participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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 ESC’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0 ,and \$63,170, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 9 – Fund Balance

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

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

	General	Other Governmental Funds	Total
Restricted for:			
Local Grants	\$ 0	\$ 62,436	\$ 62,436
Committed for:			
Retirement	33,664	0	33,664
Assigned for:			
Student Instruction	1,844	0	1,844
Student and Staff Support	62,681	0	62,681
Community Services	8,711	0	8,711
District Escrow Accounts	27,994	0	27,994
Preschool Activities	155,716	0	155,716
Other Purposes	207,824	0	207,824
Total Assigned	464,770	0	464,770
Unassigned	3,742,969	(21,439)	3,721,530
<i>Total Fund Balance</i>	\$ 4,241,403	\$ 40,997	\$ 4,282,400

Note 10 – Interfund Advances

The purpose of the interfund advances from other governmental funds to the general fund is to repay advances from the prior year. Advances made in fiscal year 2016 were to repay prior year outstanding advances in the amount of \$71,742.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Note 11 - Jointly Governed Organization

Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 23 ESCs and the ESC, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer of the Tri-County Education Service Center, located in Wooster, Ohio which serves as fiscal agent.

Note 12 – Public Entity Risk Pools

Workers’ Compensation Group Rating Program The ESC participates in the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers’ Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority Board The ESC also participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA’s business affairs are conducted by a nine member Board of Directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the ESC’s property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

Jefferson Health Plan– The ESC participates in the Jefferson Health Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan’s business and affairs are conducted by a nine member Board of Directors elected from the Jefferson Health Plan’s assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

Note 13 – Contingencies and Commitments

A. Grants

The ESC received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require 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 funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2016.

**Tri-County Educational Service Center
Wayne County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

B. Litigation

The ESC was party to a claim that reached a settlement agreement and mutual release on September 23, 2016.

C. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$72,236 in the general fund and \$3,563 in the non-major governmental funds.

Note 14 – Subsequent Event

The ESC had excess funding with the Jefferson Health Plan that has resulted in a \$1,000,000 draw during fiscal year 2017.

This page intentionally left blank.

SUPPLEMENTAL INFORMATION

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF LABOR			
PASSED THROUGH THE			
ASHLAND COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
WIA Youth Activities	17.259	N/A	\$ 8,473
WIA Youth Activities	17.259	N/A	97,325
Total WIA Youth Activities			105,798
PASSED THROUGH THE			
WAYNE COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
WIA Youth Activities	17.259	N/A	27,782
WIA Youth Activities	17.259	N/A	166,223
Total WIA Youth Activities			194,005
Total U.S. Department of Labor and WIA Youth Activities			299,803
U.S. DEPARTMENT OF EDUCATION			
PASSED THROUGH THE			
OHIO DEPARTMENT OF EDUCATION			
Special Education Grant Cluster:			
(C) Special Education_Grants to States	84.027	2015	812
(C) Special Education_Grants to States	84.027	2016	22,810
Total Special Education_Grants to States			23,622
(C) Special Education_Preschool Grants	84.173	2015	24,647
(C) Special Education_Preschool Grants	84.173	2016	123,717
Total Special Education_Preschool Grants			148,364
Total Special Education Grant Cluster			171,986
Twenty-First Century Community Learning Centers	84.287	2015	4,720
Twenty-First Century Community Learning Centers	84.287	2016	137,352
Total Twenty-First Century Community Learning Centers			142,072
English Language Acquisition Grants	84.365	2015	421
English Language Acquisition Grants	84.365	2016	26,144
Total English Language Acquisition Grants			26,565
Improving Teacher Quality State Grants	84.367	2016	3,134
Total U.S. Department of Education			343,757
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
PASSED THROUGH THE			
ASHLAND COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
Public Health Emergency Preparedness	93.069	N/A	12,070
Public Health Emergency Preparedness	93.069	N/A	82,947
Total Public Health Emergency Preparedness			95,017
Temporary Assistance for Needy Families	93.558	N/A	89,826
Temporary Assistance for Needy Families	93.558	N/A	3,322
Total Temporary Assistance for Needy Families			93,148
PASSED THROUGH THE			
WAYNE COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
Public Health Emergency Preparedness	93.069	N/A	20,661
Public Health Emergency Preparedness	93.069	N/A	103,098
Total Public Health Emergency Preparedness			123,759
Temporary Assistance for Needy Families	93.558	N/A	160,127
Temporary Assistance for Needy Families	93.558	N/A	8,244
Total Temporary Assistance for Needy Families			168,371
Total U.S. Department of Health and Human Services			480,295
Total Federal Financial Assistance			\$ 1,123,855

Notes to the Schedule of Expenditures of Federal Awards:

- (A) OAKS did not assign pass-through numbers for fiscal year 2016.
- (B) This schedule includes the federal award activity of the Tri-County Educational Service Center under programs of the federal government for the fiscal year ended June 30, 2016 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Tri-County Educational Service Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Tri-County Educational Service Center.
- (C) Included as part of "Special Education Grant Cluster" in determining major programs.
- (D) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. Tri-County Educational Service Center has elected not to use the 10% de minimis indirect cost rate.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards***

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Tri-County Educational Service Center's basic financial statements and have issued our report thereon dated November 22, 2016, wherein we noted the Tri-County Educational Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Governing Board
Tri-County Educational Service Center

Compliance and Other Matters

As part of reasonably assuring whether the Tri-County Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

The Tri-County Educational Service Center's Response to Finding

The Tri-County Educational Service Center's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Tri-County Educational Service Center's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Julian & Grube, Inc.
November 22, 2016



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

Report on Compliance for Each Major Federal Program

We have audited the Tri-County Educational Service Center's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Tri-County Educational Service Center's major federal programs for the fiscal year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Tri-County Educational Service Center's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe our audit provides a reasonable basis for our compliance opinion on each of the Tri-County Educational Service Center's major programs. However, our audit does not provide a legal determination of the Tri-County Educational Service Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Tri-County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2016.

Governing Board
Tri-County Educational Service Center

Report on Internal Control Over Compliance

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

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

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

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



Julian & Grube, Inc.
November 22, 2016

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	WIA Youth Activities (CFDA #17.259) and Temporary Assistance for Needy Families (CFDA #93.558)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	No

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2016-001

Noncompliance

Ohio Rev. Code § 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The ESC prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from GAAP. There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the ESC being fined or other administrative remedies.

The ESC should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash-basis of accounting will accurately reflect the ESC's financial position and allow for those resources previously spent on GAAP to be allocated to educational purposes.	N/A	Mary Workman, Treasurer

**TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2015-001	2012	<u>Noncompliance</u> - Ohio Administrative Code Section 117-2-03(B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The ESC prepared its annual financial report in accordance with the cash basis of accounting.	No	Repeated as finding 2016-001, the ESC has not changed the accounting basis it used to prepare its annual financial report from cash basis to GAAP.



Dave Yost • Auditor of State

TRI COUNTY EDUCATIONAL SERVICE CENTER

WAYNE 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
JANUARY 19, 2017