



Dave Yost • Auditor of State

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY
JUNE 30, 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	19
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Assets and Liabilities Fiduciary Funds.....	23
Notes to the Basic Financial Statements	25
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)	
General Fund	55
Miscellaneous Federal Grants Fund	56
Straight A Grant Fund	57
Notes to the Supplementary Information	58
Required Supplementary Information:	
Schedule of the ESC's Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio	62
State Teachers Retirement System (STRS) of Ohio	63
Schedule of the ESC Contributions:	
School Employees Retirement System (SERS) of Ohio	64
State Teachers Retirement System (STRS) of Ohio	66
Notes to Required Supplementary Information.....	68
Schedule of Expenditures of Federal Awards (Prepared by Management)	69
Notes to the Schedule of Expenditures of Federal Awards (Prepared by Management)	70

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY
JUNE 30, 2016**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	71
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	73
Schedule of Findings.....	75
Summary Schedule of Prior Audit Findings (Prepared by Management).....	78
Corrective Action Plan (Prepared by Management)	79



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

East Central Ohio Educational Service Center
Tuscarawas County
834 East High Ave.
New Philadelphia, Ohio 44663

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio (the ESC), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the ESC'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 ESC's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the June 30, 2015 net position was restated to present the Title I A fund within the non-major governmental funds rather than within the agency fund. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The budgetary schedules for the General Fund, Miscellaneous Federal Grants Fund, and Straight A Grant Fund present additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017, on our consideration of the ESC'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 ESC's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2017

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**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

The management's discussion and analysis of the East Central Ohio 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 financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position of governmental activities increased \$1,452,403 which represents a 10.07% increase from 2015.
- General revenues accounted for \$884,908 in revenue or 5.98% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,920,092 or 94.02% of total revenues of \$14,805,000.
- The ESC had \$13,352,597 in expenses related to governmental activities; program revenues, including program specific charges for services, grants or contributions, of \$13,920,092 were adequate to provide for these expenses. In addition, the ESC had general revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$884,908.
- The ESC's major governmental funds are the general, straight A grant and miscellaneous federal grants funds. The general fund had \$11,986,756 in revenues and other financing sources and \$11,726,388 in expenditures. During fiscal year 2016, the general fund's fund balance increased \$260,368 from \$1,280,960 to \$1,541,328.
- The straight A grant fund had \$280,957 in revenues and \$196,693 in expenditures. In fiscal year 2016, the straight A grant fund's ending fund balance was \$84,264. As the fund was established during fiscal year 2016, fund had a \$0 beginning balance.
- The miscellaneous federal grants fund had \$1,646,854 in revenues and \$1,689,906 in expenditures. During fiscal year 2016, the miscellaneous federal grants fund's fund balance decreased \$43,052 from \$50,817 to \$7,765.

Using these Basic Financial Statements

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

The statement of net position and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. The general, straight A grant and the miscellaneous federal grant funds are the only governmental funds reported as major funds.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net position and changes in that 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, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant and pupil transportation.

The ESC's statement of net position and statement of activities can be found on pages 17 and 18 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 13. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund, straight A grant fund and miscellaneous federal grants 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-22 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The ESC's fiduciary activities are reported in a separate statement of assets and liabilities on page 23. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-54 of this report.

Supplementary Information

The ESC has presented budgetary comparison schedules for the general fund, straight A grant fund and miscellaneous federal grants fund as supplementary information on pages 55-59 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the ESC's net pension liability. The required supplementary information can be found on pages 62-68 of this report.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

The ESC as a Whole

Recall that the statement of net position provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net position at June 30, 2016 and June 30, 2015. The net position at June 30, 2015 has been restated as described in Note 3.B.

	Net Position	
	Governmental Activities 2016	Restated Governmental Activities 2015
<u>Assets</u>		
Current and other assets	\$ 4,088,499	\$ 3,257,602
Capital assets, net	<u>1,741,686</u>	<u>1,446,875</u>
Total assets	<u>5,830,185</u>	<u>4,704,477</u>
<u>Deferred outflows of resources</u>		
Pension	<u>3,247,110</u>	<u>1,257,139</u>
<u>Liabilities</u>		
Current liabilities	1,229,285	1,283,493
Long-term liabilities:		
Due within one year	158,562	263,655
Due in more than one year:		
Net pension liability	19,342,224	15,818,999
Other amounts	<u>142,536</u>	<u>180,422</u>
Total liabilities	<u>20,872,607</u>	<u>17,546,569</u>
<u>Deferred inflows of resources</u>		
Pension	<u>1,179,243</u>	<u>2,842,005</u>
<u>Net Position</u>		
Net investment in capital assets	1,615,862	1,213,910
Restricted	859,998	154,232
Unrestricted (deficit)	<u>(15,450,415)</u>	<u>(15,795,100)</u>
Total net position (deficit)	<u>\$ (12,974,555)</u>	<u>\$ (14,426,958)</u>

During a previous fiscal year, the ESC adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27," and GASB statement 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ESC's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

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

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

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

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

In accordance with GASB 68, the ESC's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the ESC's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$12,974,555. Of this total, a deficit of \$15,450,415 is unrestricted in use.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

At year-end, capital assets represented 29.87% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2016, was \$1,615,862. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net position, \$859,998, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$15,450,415. The deficit balance of unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The table below shows the change in net position for fiscal years 2016 and 2015. The net position at June 30, 2015 has been restated as described in Note 3.B.

Change in Net Position

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 10,895,636	\$ 11,205,972
Operating grants and contributions	3,024,456	1,548,536
General revenues:		
Grants and entitlements	880,523	881,715
Investment earnings	<u>4,385</u>	<u>1,418</u>
Total revenues	<u>14,805,000</u>	<u>13,637,641</u>

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**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

	Change in Net Position (Continued)	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,101,463	\$ 1,688,589
Special	2,490,883	2,519,637
Vocational	61,048	66,348
Other	970,909	1,094,338
Support services:		
Pupil	2,785,788	2,569,084
Instructional staff	2,350,274	2,432,152
Board of education	32,601	28,409
Administration	1,179,824	1,013,726
Fiscal	333,772	347,428
Business	424,597	189,726
Operations and maintenance	124,211	159,712
Pupil transportation	38,999	25,673
Central	378,503	352,323
Operation of non-instructional services:		
Food service operations	62,069	-
Other non-instructional services	6,874	7,847
Interest and fiscal charges	<u>10,782</u>	<u>18,164</u>
Total expenses	<u>13,352,597</u>	<u>12,513,156</u>
Change in net position	1,452,403	1,124,485
Net position at beginning of year (restated)	(14,426,958)	(15,566,551)
Adjustment due to restatement	<u>-</u>	<u>15,108</u>
Net position at end of year	<u>\$ (12,974,555)</u>	<u>\$ (14,426,958)</u>

Governmental Activities

Net position of the ESC's governmental activities increased \$1,452,403. Total governmental expenses of \$13,352,597 were offset by program revenues of \$13,920,092 and general revenues of \$884,908. Program revenues supported 100% of the total governmental expenses.

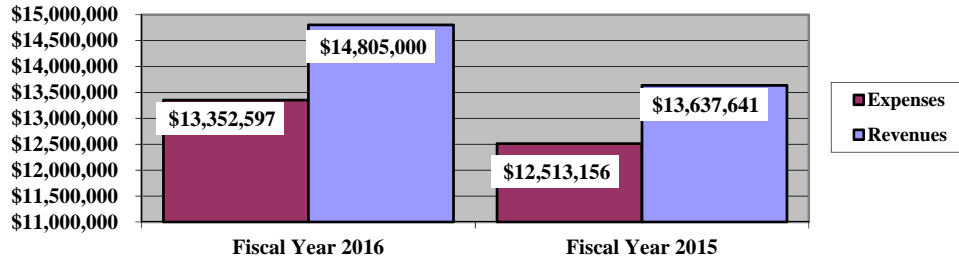
The primary sources of revenue for governmental activities are derived from charges for services and sales. This revenue source represents 73.59% of total governmental revenue.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

The graph below presents the ESC's governmental activities revenues and expenses for fiscal years 2016 and 2015.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Program expenses				
Instruction:				
Regular	\$ 2,101,463	\$ 776,228	\$ 1,688,589	\$ 1,313,659
Special	2,490,883	(952,316)	2,519,637	(1,043,293)
Vocational	61,048	61,048	66,348	66,348
Other	970,909	506,124	1,094,338	475,593
Support services:				
Pupil	2,785,788	(980,652)	2,569,084	(1,027,590)
Instructional staff	2,350,274	(840,629)	2,432,152	(798,417)
Board of education	32,601	32,601	28,409	28,409
Administration	1,179,824	(320,943)	1,013,726	(258,842)
Fiscal	333,772	333,772	347,428	285,461
Business	424,597	303,717	189,726	189,726
Operations and maintenance	124,211	124,211	159,712	159,712
Pupil transportation	38,999	50	25,673	(1,995)
Central	378,503	378,503	352,323	352,323
Operation of non-instructional services:				
Other non-instructional services	6,874	9	7,847	(610)
Food service operations	62,069	-	-	-
Interest and fiscal charges	10,782	10,782	18,164	18,164
Total expenses	<u>\$ 13,352,597</u>	<u>\$ (567,495)</u>	<u>\$ 12,513,156</u>	<u>\$ (241,352)</u>

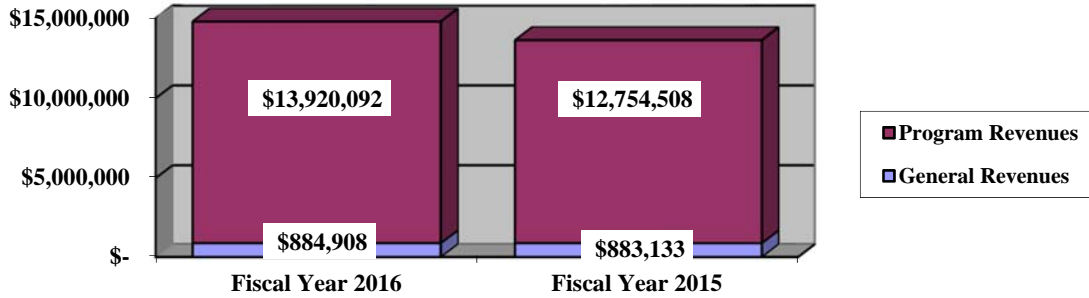
For all governmental activities, program revenues completely supported expenditures. The primary support of the ESC is program revenues, charges for services, from school districts to which the ESC provides services.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

The graph below presents the ESC's governmental activities revenues for fiscal year 2016 and 2015.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$1,653,066, which is more than last year's total of \$1,356,744. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015. The net position at June 30, 2015 has been restated as described in Note 3.B.

	Fund Balance June 30, 2016	Restated Fund Balance June 30, 2015	Change	Percentage Change
General	\$ 1,541,328	\$ 1,280,960	\$ 260,368	20.33 %
Straight A grant	84,264	-	84,264	100.00 %
Miscellaneous federal grants	7,765	50,817	(43,052)	(84.72) %
Other Governmental	19,709	24,967	(5,258)	(21.06) %
Total	\$ 1,653,066	\$ 1,356,744	\$ 296,322	21.84 %

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

General Fund

The ESC's general fund balance increased by \$260,368. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 4,343,105	\$ 4,577,718	\$ (234,613)	(5.13) %
Earnings on investments	4,385	1,418	2,967	209.24 %
Contract services	6,744,302	6,352,733	391,569	6.16 %
Intergovernmental	<u>880,523</u>	<u>881,715</u>	<u>(1,192)</u>	(0.14) %
Total	<u>\$ 11,972,315</u>	<u>\$ 11,813,584</u>	<u>\$ 158,731</u>	1.34 %
<u>Expenditures</u>				
Instruction	\$ 4,445,368	\$ 4,579,896	\$ (134,528)	(2.94) %
Support services	6,876,695	6,721,990	154,705	2.30 %
Facilities acquisition and construction	257,520	-	257,520	100.00 %
Capital outlay	14,441	-	14,441	100.00 %
Debt service	<u>132,364</u>	<u>155,017</u>	<u>(22,653)</u>	(14.61) %
Total	<u>\$ 11,726,388</u>	<u>\$ 11,456,903</u>	<u>\$ 269,485</u>	2.35 %

Contract services revenue increased 6.16%, due mainly to a reclassification of how foundation settlement payments are being received by the ESC. Interest revenue increased \$2,967 due to higher interest rates earned on investments compared to the prior year. Instructional expenditures decreased 2.94% due mainly to a decrease in special instructional expenditures. Support service expenditures increased 2.30% due mainly to an increase in instructional staff and administrative related expenditures. Capital outlay increased by 14,441 due to the inception of a new capital lease for copiers in fiscal year 2016. Facilities acquisition and construction increased by \$257,520 due to the ESC acquiring a building in Belmont County during the fiscal year. All other revenues and expenditures remained comparable to prior years.

Debt Administration and Capital Assets

Debt Administration

At June 30, 2016, the ESC had \$104,847 in capital lease obligations and \$20,977 in a lease purchase agreement outstanding. Of this total, \$96,459 is due within one year and \$29,365 is due in greater than one year.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

The following table summarizes the loans and lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
Capital lease obligation	\$ 104,847	\$ 211,988
Lease purchase agreement	<u>20,977</u>	<u>20,977</u>
Total	<u>\$ 125,824</u>	<u>\$ 232,965</u>

See Note 12 to the basic financial statements for additional information on the ESC's debt administration.

Capital Assets

At the end of fiscal year 2016, the ESC had \$1,741,686 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2016 balances compared to June 30, 2015:

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

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 22,360	\$ 22,360
Land improvements	16,612	21,359
Building and improvements	1,243,778	1,115,422
Furniture and equipment	416,879	255,955
Vehicles	<u>42,057</u>	<u>31,779</u>
Total	<u>\$ 1,741,686</u>	<u>\$ 1,446,875</u>

The overall increase in capital assets of \$294,811 is due to capital outlays of \$550,997 exceeding depreciation expense of \$183,506 in the fiscal year.

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

Current Financial Related Activities

Overall, the ESC remains financially stable. As the preceding information shows, the ESC relies heavily on service contracts with Local, City and Exempted Village School Districts and other entities within the four county areas.

The future of the ESC is dependent upon them maintaining stability in a very difficult budget environment. Some of those challenges that they will be facing are:

- 1.) Current legislation continues to reduce the State funding to Educational Service Centers.
- 2.) Moving forward with a Shared Services Initiative/Collaboration with other ESCs and Local Government entities.
- 3.) Continuing to identify and provide the needed services to the districts and other community entities the ESC services in the most cost effective manner available.
- 4.) Continue to identify and grow the Distance Learning Services to districts across the State of Ohio as well as throughout the United States.
- 5.) Identifying possible sources of revenue generating activities.

The ESC's system of budgeting and internal controls is well regarded. All of the ESC's financial abilities will be needed to meet the financial challenges in the future

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's accountability for the money it receives. If you have any questions about this report or need additional financial information contact: Mr. Matt King, Treasurer, East Central Ohio Educational Service Center, 834 East High Avenue, New Philadelphia, OH 44663.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,389,360
Receivables:	
Accounts.	513,186
Intergovernmental	1,160,950
Prepayments	25,003
Capital assets:	
Nondepreciable capital assets	22,360
Depreciable capital assets, net.	1,719,326
Capital assets, net	1,741,686
Total assets.	5,830,185
Deferred outflows of resources:	
Pension - STRS	2,870,950
Pension - SERS	376,160
Total deferred outflows of resources	3,247,110
Liabilities:	
Accounts payable.	8,454
Accrued wages and benefits payable	1,020,305
Pension and postemployment benefits payable	166,322
Intergovernmental payable	34,204
Long-term liabilities:	
Due within one year.	158,562
Due in more than one year:	
Net pension liability	19,342,224
Other amounts due in more than one year	142,536
Total liabilities	20,872,607
Deferred inflows of resources:	
Pension - STRS.	909,134
Pension - SERS.	270,109
Total deferred inflows of resources	1,179,243
Net position:	
Net investment in capital assets	1,615,862
Restricted for:	
State funded programs.	735,474
Federally funded programs	124,524
Unrestricted (deficit)	(15,450,415)
Total net position (deficit).	\$ (12,974,555)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Total
Governmental activities:				
Instruction:				
Regular	\$ 2,101,463	\$ -	\$ 1,325,235	\$ (776,228)
Special	2,490,883	3,222,272	220,927	952,316
Vocational	61,048	-	-	(61,048)
Other	970,909	-	464,785	(506,124)
Support services:				
Pupil	2,785,788	3,759,077	7,363	980,652
Instructional staff	2,350,274	2,423,881	767,022	840,629
Board of education	32,601	-	-	(32,601)
Administration	1,179,824	1,490,406	10,361	320,943
Fiscal	333,772	-	-	(333,772)
Business	424,597	-	120,880	(303,717)
Operations and maintenance	124,211	-	-	(124,211)
Pupil transportation	38,999	-	38,949	(50)
Central	378,503	-	-	(378,503)
Operation of non-instructional services:				
Non-instructional services	6,874	-	6,865	(9)
Food service operations	62,069	-	62,069	-
Interest and fiscal charges	10,782	-	-	(10,782)
Total governmental activities	\$ 13,352,597	\$ 10,895,636	\$ 3,024,456	567,495
		General revenues:		
		Grants and entitlements not restricted to specific programs		880,523
		Investment earnings		4,385
		Total general revenues		884,908
		Change in net position		1,452,403
		Net position (deficit) at beginning of year (restated)		(14,426,958)
		Net position (deficit) at end of year		\$ (12,974,555)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Straight "A" Grant</u>	<u>Miscellaneous Federal Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents . . .	\$ 2,305,096	\$ 84,264	\$ -	\$ -	\$ 2,389,360
Receivables:					
Accounts	513,186	-	-	-	513,186
Intergovernmental	8,156	651,210	317,218	184,366	1,160,950
Prepayments	25,003	-	-	-	25,003
Due from other funds	273,336	-	-	-	273,336
Total assets	<u>\$ 3,124,777</u>	<u>\$ 735,474</u>	<u>\$ 317,218</u>	<u>\$ 184,366</u>	<u>\$ 4,361,835</u>
Liabilities:					
Accounts payable	\$ 6,900	\$ -	\$ -	\$ 1,554	\$ 8,454
Accrued wages and benefits payable	975,380	-	31,740	13,185	1,020,305
Intergovernmental payable	33,581	-	432	191	34,204
Pension and postemployment benefits payable	160,240	-	4,236	1,846	166,322
Due to other funds	-	-	232,150	41,186	273,336
Total liabilities	<u>1,176,101</u>	<u>-</u>	<u>268,558</u>	<u>57,962</u>	<u>1,502,621</u>
Deferred inflows of resources:					
Intergovernmental revenue not available	-	651,210	40,895	106,695	798,800
Contract services revenue not available	407,348	-	-	-	407,348
Total deferred inflows of resources	<u>407,348</u>	<u>651,210</u>	<u>40,895</u>	<u>106,695</u>	<u>1,206,148</u>
Fund balances:					
Nonspendable:					
Prepays	25,003	-	-	-	25,003
Restricted:					
Federal grants	-	-	7,765	19,709	27,474
State grants	-	84,264	-	-	84,264
Assigned:					
Student instruction	3,870	-	-	-	3,870
Student and staff support	61,654	-	-	-	61,654
Facilities acquisition and construction	2,523	-	-	-	2,523
Unassigned	1,448,278	-	-	-	1,448,278
Total fund balances	<u>1,541,328</u>	<u>84,264</u>	<u>7,765</u>	<u>19,709</u>	<u>1,653,066</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,124,777</u>	<u>\$ 735,474</u>	<u>\$ 317,218</u>	<u>\$ 184,366</u>	<u>\$ 4,361,835</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

Total governmental fund balances		\$	1,653,066
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,741,686
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Accounts receivable	407,348		
Intergovernmental receivable	798,800		
Total			1,206,148
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.			
Deferred outflows of resources - pension	3,247,110		
Deferred inflows of resources - pension	(1,179,243)		
Net pension liability	(19,342,224)		
Total			(17,274,357)
Long-term liabilities, including capital leases and lease purchase agreements, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	(175,274)		
Capital lease obligations	(104,847)		
Lease-purchase agreement	(20,977)		
Total			(301,098)
Net position of governmental activities		\$	<u>(12,974,555)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

	<u>General</u>	<u>Straight "A" Grant</u>	<u>Miscellaneous Federal Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Tuition	\$ 4,343,105	-	\$ -	\$ -	\$ 4,343,105
Earnings on investments	4,385	-	-	-	4,385
Contract services	6,744,302	-	-	-	6,744,302
Intergovernmental - state	880,523	280,957	-	48,056	1,209,536
Intergovernmental - federal	-	-	1,646,854	249,789	1,896,643
Total revenues	<u>11,972,315</u>	<u>280,957</u>	<u>1,646,854</u>	<u>297,845</u>	<u>14,197,971</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,499,622	196,693	350,781	42,735	2,089,831
Special	2,370,190	-	-	144,037	2,514,227
Vocational	61,875	-	-	-	61,875
Other	513,681	-	465,379	-	979,060
Support services:					
Pupil	2,793,498	-	-	4,360	2,797,858
Instructional staff	1,801,268	-	724,999	33,026	2,559,293
Board of education	32,573	-	-	-	32,573
Administration	1,107,572	-	10,374	-	1,117,946
Fiscal	380,657	-	-	-	380,657
Business	237,661	-	92,500	16,876	347,037
Operations and maintenance	144,019	-	-	-	144,019
Pupil transportation	-	-	38,999	-	38,999
Central	379,447	-	-	-	379,447
Operation of non-instructional services:					
Other of non-instructional services	-	-	6,874	-	6,874
Food service operations	-	-	-	62,069	62,069
Facilities acquisition and construction	257,520	-	-	-	257,520
Capital outlay	14,441	-	-	-	14,441
Debt service:					
Principal retirement	121,582	-	-	-	121,582
Interest and fiscal charges	10,782	-	-	-	10,782
Total expenditures	<u>11,726,388</u>	<u>196,693</u>	<u>1,689,906</u>	<u>303,103</u>	<u>13,916,090</u>
Excess (deficiency) of revenues over (under) expenditures	<u>245,927</u>	<u>84,264</u>	<u>(43,052)</u>	<u>(5,258)</u>	<u>281,881</u>
Other financing sources:					
Capital lease transaction	14,441	-	-	-	14,441
Total other financing sources	<u>14,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,441</u>
Net change in fund balances	260,368	84,264	(43,052)	(5,258)	296,322
Fund balances at beginning of year (restated)	<u>1,280,960</u>	<u>-</u>	<u>50,817</u>	<u>24,967</u>	<u>1,356,744</u>
Fund balances at end of year	<u>\$ 1,541,328</u>	<u>\$ 84,264</u>	<u>\$ 7,765</u>	<u>\$ 19,709</u>	<u>\$ 1,653,066</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	296,322
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 550,997	
Current year depreciation	<u>(183,506)</u>	
Total		367,491
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(72,680)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Contract service revenue	(191,771)	
Intergovernmental	<u>798,800</u>	
Total		607,029
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Capital leases		121,582
Issuance of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
Capital leases		(14,441)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,173,007
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,043,499)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>17,592</u>
Change in net position of governmental activities	\$	<u>1,452,403</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 10,531
Total assets.	<u>\$ 10,531</u>
Liabilities:	
Intergovernmental payable	\$ 10,531
Total liabilities	<u>\$ 10,531</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The East Central Ohio Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio and as defined by Section 3313.01 of the Ohio Revised Code. The ESC is a result of the August 1, 2009, merger of the Tuscarawas-Carroll-Harrison Educational Service Center and the Belmont County Educational Service Center, under the authority of the Ohio Revised Code Section 3311.057 and resolutions made by the Governing Boards.

The ESC operates under an elected seven-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures and approves all financial activities. The ESC supplies supervisory, administrative and other needed services to participating school districts. The ESC is staffed by 88 non-certified employees and 156 certified employees to provide services to approximately 24,559 students in 18 districts throughout Tuscarawas, Carroll, Harrison and Belmont counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service, and student related 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; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

The following organizations are described due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATION

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

OME-RESA is one of 22 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 44 member districts in 11 different Ohio counties. The member districts are comprised of public districts and educational service centers. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors. During 2016, the ESC paid \$12,542 to OME-RESA for various services.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts and acts in the capacity of fiscal agent for OME-RESA.

INSURANCE PURCHASING 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.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

Ohio School Plan

The Ohio School Plan (the "Plan") is a shared liability, property and fleet insurance risk pool which is governed by a board of thirteen school superintendents, business managers and treasurers. Hylant Administrative Services, the insurance agency, has one Board seat. OSBA, BASA, and OASBO executive directors serve as ex-officio members. Approximately 300 educational entities are served by the Plan. The Plan's board elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Plan. All Plan revenues are generated from charges for services. For more information, write to the Ohio School Plan, Hylant Administrative Services LLC, P.O. Box 2083, Toledo, Ohio 43603-2083.

Ohio School Benefits Cooperative

The ESC participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to an as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Education Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees and the eligible dependents, and designated beneficiaries of such employees, and propose to have certain other eligible Educational Service Center or groups of Educational Service Centers join them for the same purposes. Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC.

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

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

The following are the ESC's major governmental funds:

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.

Straight A grant fund - The Straight A fund is used to account for grant money received from the State that is restricted for projects allowable under the grant.

Miscellaneous federal grants fund - A fund preliminarily used to account for 21st Century Grant monies received through the Ohio Department of Education from the federal government.

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

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. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals including funds held on behalf of the State Support Team to pay individuals at an office in New Philadelphia.

C. Basis of Presentation and Measurement Focus

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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the ESC, See Note 14 for deferred outflows of resources related the ESC's net pension liability.

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

For the ESC, See Note 14 for deferred inflows of resources related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2016, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

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 shares price which is the price the investment could be sold for on June 30, 2016.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$4,385, none of which was assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents.

An analysis of the ESC’s investment account at fiscal year end is provided in Note 4.

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC’s capitalization threshold is \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. The ESC does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	10 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	3 - 10 years

G. Interfund Balances

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

H. Compensated Absences

The ESC reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributed to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. The ESC records a liability for accumulated unused vacation time when earned for those eligible employees with more than one year of service.

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

I. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital lease obligations and lease purchase agreements are recognized as liabilities on the fund financial statements when due.

J. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

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 Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the ESC Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

K. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing or liability used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

L. Pensions

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

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

M. Estimates

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

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. The ESC made no interfund transfers during fiscal year 2016.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles Change in Accounting Principles

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

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

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

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

B. Restatement of Net Position/Fund Balance

A net position restatement is required in order to reclassify the Title I fund from an agency fund to a special revenue fund. The governmental activities at July 1, 2015 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ (14,442,066)
Move Title I fund from agency funds	15,108
Restated net position at July 1, 2015	\$ (14,426,958)

This restatement had the following effect on the ESC's governmental fund balances as previously reported:

	General	Miscellaneous Grants	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,280,960	\$ 50,817	\$ 9,859	\$ 1,341,636
Fund restatement:				
Move Title I fund from agency fund	-	-	15,108	15,108
Total fund restatement	-	-	15,108	15,108
Restated fund balance at July 1, 2015	\$ 1,280,960	\$ 50,817	\$ 24,967	\$ 1,356,744

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all ESC deposits was \$1,493,873. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$1,353,201 of the ESC’s bank balance of \$1,603,201 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute.

B. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	<u>\$ 906,018</u>	<u>\$ 906,018</u>

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The ESC’s investment policy does not specifically address credit risk beyond requiring the ESC to only invest in securities authorized by State statute.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 906,018</u>	<u>100.00</u>

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,493,873
Investments	<u>906,018</u>
Total	<u>\$ 2,399,891</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,389,360
Agency funds	<u>10,531</u>
Total	<u>\$ 2,399,891</u>

NOTE 5 - STATE FUNDING

The ESC funding comes from two sources: State and local funding.

The State per-pupil portion of the budget is approximately \$26.83 per pupil.

The local part 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 school districts to which the ESC provides services from payments made under the State’s foundation program.

NOTE 6 – INTERFUND TRANSACTIONS

Due to/from other funds consisted of the following at June 30, 2016, as reported on the fund statement:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 41,186
General fund	Miscellaneous federal grants fund	<u>232,150</u>
Total		<u>\$ 273,336</u>

The primary purpose of the amount due to the general fund from the miscellaneous federal grants fund and nonmajor governmental funds was to eliminate negative cash balances. The amount will be repaid once cash is received.

Amounts due to/from between governmental funds are eliminated on the government-wide statements.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts (billings for various services) and intergovernmental grants and entitlements. These receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net position follows:

Governmental activities:	
Accounts	\$ 513,186
Intergovernmental	<u>1,160,950</u>
 Total	 <u><u>\$ 1,674,136</u></u>

Receivables have been presented on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
	<u>06/30/15</u>			<u>06/30/16</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 22,360	\$ -	\$ -	\$ 22,360
Total capital assets, not being depreciated	<u>22,360</u>	<u>-</u>	<u>-</u>	<u>22,360</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	94,933	-	-	94,933
Buildings and improvements	1,986,153	248,595	(56,897)	2,177,851
Furniture and equipment	821,647	282,191	(61,428)	1,042,410
Vehicles	<u>77,357</u>	<u>20,211</u>	<u>-</u>	<u>97,568</u>
Total capital assets, being depreciated	<u>2,980,090</u>	<u>550,997</u>	<u>(118,325)</u>	<u>3,412,762</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(73,574)	(4,747)	-	(78,321)
Buildings and improvements	(870,731)	(67,325)	3,983	(934,073)
Furniture and equipment	(565,692)	(101,501)	41,662	(625,531)
Vehicles	<u>(45,578)</u>	<u>(9,933)</u>	<u>-</u>	<u>(55,511)</u>
Total accumulated depreciation	<u>(1,555,575)</u>	<u>(183,506)</u>	<u>45,645</u>	<u>(1,693,436)</u>
Governmental activities capital assets, net	<u>\$ 1,446,875</u>	<u>\$ 367,491</u>	<u>\$ (72,680)</u>	<u>\$ 1,741,686</u>

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 19,966
Special	708
<u>Support services:</u>	
Pupil	1,498
Instructional staff	57,058
Board of education	166
Administration	59,706
Fiscal	1,245
Business	41,808
Operations and maintenance	1,263
Central	<u>88</u>
Total depreciation expense	<u>\$ 183,506</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During the prior fiscal years the ESC entered into capital leases for copiers and communications equipment. During fiscal year 2016 the ESC entered into a lease for copier equipment. Capital assets consisting of equipment have been capitalized in the amount of \$170,314. This amount represents the present value of the minimum lease payments at the time of acquisition. Equipment accumulated depreciation as of June 30, 2016 was \$117,754 leaving a current book value of \$52,560. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the fiscal year 2016 for the copiers and communications equipment totaled \$37,675, paid by the general fund.

On April 11, 2002 the ESC entered into a capital lease with Banc One Leasing Corporation for financing the acquisition, renovation, rehabilitation, furnishing, equipping and otherwise improving a building for use as an administration building. On October 20, 2008, an amendment was made to restructure this lease for an additional \$29,308 to extend the period of time over which the lease is payable and to reduce the amount of annual lease payments. This amendment did not affect the amount that is capitalized in buildings and improvements.

Capital assets consisting of buildings and improvements have been capitalized in the amount of \$1,300,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Buildings and improvements accumulated depreciation as of June 30, 2016 was \$617,500, leaving a current book value of \$682,500. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the fiscal year 2016 totaled \$83,907 for the building improvements, paid by the general fund.

The following is a schedule of the all future long-term minimum lease payments required under the capital lease agreements and the present value of the minimum lease payments as of June 30, 2016.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

<u>Fiscal Year Ending</u>	<u>Payments</u>
2017	\$ 79,145
2018	26,473
2019	<u>3,729</u>
Total minimum lease payment	109,347
Less: amount representing interest	<u>(4,500)</u>
Present value of minimum lease payments	<u>\$ 104,847</u>

In conjunction with the Banc One capital lease agreement, the ESC entered into a ground-lease agreement whereby the ESC subleases the real property upon which the renovations and building improvements are being made to JP Morgan Chase Leasing Corporation. The ESC is the lessor and JP Morgan Chase Leasing Corporation is the lessee under the ground-lease agreement. The sublease commenced on April 11, 2002 and terminates on October 23, 2021, or earlier upon the termination of the lease-purchase agreement by the ESC.

NOTE 10 - LEASE-PURCHASE AGREEMENT

During fiscal year 2005, the ESC entered into a lease-purchase agreement with the Ohio Department of Natural Resources for the purchase of the STAR Alternative School building.

Capital assets consisting of buildings and improvements have been capitalized in the amount of \$251,600. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2016 was \$132,090, leaving a current book value of \$119,510. A corresponding liability was recorded in the government-wide financial statements. There were no principal payments made during 2016.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2016.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2017	<u>\$ 20,977</u>
Present value of minimum lease payments	<u>\$ 20,977</u>

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from Governing Board actions and State laws. Full-time certified and classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated vacation time is paid to eligible employees upon termination of employment. Certified employees who do not work 12 months are not entitled to vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a total of 200 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 45 days. Any employee receiving such payment must meet the retirement provisions set by STRS Ohio or SERS.

NOTE 12 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding			Balance Outstanding	Amounts Due in
	<u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/16</u>	<u>One Year</u>
Governmental activities:					
Compensated absences	\$ 211,112	\$ 59,463	\$ (95,301)	\$ 175,274	\$ 62,103
Net pension liability	15,818,999	3,523,225	-	19,342,224	-
Capital lease obligation	211,988	14,441	(121,582)	104,847	75,482
Lease-purchase agreement	<u>20,977</u>	<u>-</u>	<u>-</u>	<u>20,977</u>	<u>20,977</u>
Total long-term obligations, governmental activities	<u>\$ 16,263,076</u>	<u>\$ 3,597,129</u>	<u>\$ (216,883)</u>	<u>\$ 19,643,322</u>	<u>\$ 158,562</u>

See Note 14 for detail on the ESC's net pension liability.

Compensated absences will be paid from the fund from which the employee is paid, which is primarily the general fund.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 13 - RISK MANAGEMENT

A. Comprehensive Insurance

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 Westfield Insurance Company for commercial property insurance based on information provided by Valuation Engineers, Inc., with a \$500 deductible limit per year.

Professional liability is provided by the Ohio School Plan with a \$4,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible. Driver's Education vehicles are covered by Ohio School Plan and hold a \$250 deductible for comprehensive and a \$500 deductible for collision. Bodily Injury/Property Damage liability has a \$2,000,000 per accident, \$1,000,000 Uninsured/Underinsured Motorists Bodily Injury and a \$5,000 limit per person liability for medical payment.

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

B. Workers' Compensation

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 districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts 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 districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

The ESC provides life insurance and accidental death and dismemberment insurance for all full-time employees through the Unum Life Insurance Company of America, administered by Unum Provident, in the amount of \$50,000 per employee. The ESC has elected to provide health care benefits to employees and administrators through the Ohio Schools Benefit Consortium which is maintained by the Muskingum Valley ESC. The employees share the cost of the monthly premium with the board.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the 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.

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

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.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

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 entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The ESC’s contractually required contribution to SERS was \$310,282 for fiscal year 2016. Of this amount, \$24,178 is reported as pension and postemployment benefits payable.

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.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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 \$862,725 for fiscal year 2016. Of this amount, \$99,478 is reported as pension and postemployment benefits payable.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 4,024,972	\$ 15,317,252	\$ 19,342,224
Proportion of the net pension liability	0.07053810%	0.05542284%	
Pension expense	\$ 210,800	\$ 832,699	\$ 1,043,499

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 65,878	\$ 688,259	\$ 754,137
Changes in employer's proportionate percentage/ difference between the employer's contributions and the employer's proportionate share of contributions	-	1,319,966	1,319,966
ESC contributions subsequent to the measurement date	<u>310,282</u>	<u>862,725</u>	<u>1,173,007</u>
Total deferred outflows of resources	<u>\$ 376,160</u>	<u>\$2,870,950</u>	<u>\$3,247,110</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 152,285	\$ 909,134	\$1,061,419
Changes in employer's proportionate percentage/ difference between the employer's contributions and the employer's proportionate share of contributions	<u>117,824</u>	<u>-</u>	<u>117,824</u>
Total deferred inflows of resources	<u>\$ 270,109</u>	<u>\$ 909,134</u>	<u>\$1,179,243</u>

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$1,173,007 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$ (92,127)	\$ 142,213	\$ 50,086
2018	(92,127)	142,213	50,086
2019	(92,128)	142,212	50,084
2020	72,151	672,453	744,604
Total	\$ (204,231)	\$ 1,099,091	\$ 894,860

Actuarial Assumptions - SERS

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

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

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

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

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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:

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

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

Sensitivity of the 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%)	Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 5,581,190	\$ 4,024,972	\$ 2,714,509

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes between measurement date and report date: In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the ESC's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

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

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

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

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

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

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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	\$ 21,276,818	\$ 15,317,252	\$ 10,277,550

NOTE 15 - 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, number of qualified years of service, Medicare eligibility and retirement status.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the ESC's surcharge obligation was \$36,251.

The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$36,251, \$54,345, and \$39,018, 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.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$52,626, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 16 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 16 – CONTINGENCIES – (Continued)

C. Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the ESCs. These reviews are conducted to ensure the ESCs are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 foundation funding for the ESC; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable or a liability of the ESC.

NOTE 17 - OTHER COMMITMENTS

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 68,047
Miscellaneous Federal Grant	15,622
Nonmajor governmental funds	<u>2,029</u>
Total	<u>\$ 85,698</u>

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 18 - AGREEMENT WITH ST. CLAIRSVILLE-RICHLAND CITY SCHOOL DISTRICT

The ESC entered into an agreement with St. Clairsville-Richland City School District (the “District”) for the operation of the Fox Run Center for Children and Adolescents. Under the agreement, the ESC agrees as follows:

- A.** To provide funding, staffing, supervision, materials and other services necessary to provide education programs at Fox Run consistent with the standards of the Ohio Department of Education and continuing until termination of the Agreement under its terms;
- B.** To insure compliance with all State of Ohio Department of Education standards for such programs;
- C.** To provide for the hiring, evaluation and supervision of all teachers and related service personnel and for the implementation and provision of such educational programs as are necessary, in accordance with State Law and standards adopted by the Ohio State Board of Education, and to provide the educational programs necessary to meet the needs of the students receiving their educational programs at Fox Run; and
- D.** To provide for specialized equipment, replacement equipment, materials, and supplies necessary to conduct educational programs in accordance with the State Department of Education standards.

During fiscal year 2016, the District paid the ESC \$729,242 for excess costs related to the Fox Run Center for Children and Adolescents. The ESC also received \$143,591 in 21st Century grant revenues for the Fox Run Center for Children and Adolescents. At June 30, 2016, the District owed the ESC \$407,747 for services rendered at fiscal year-end. These amounts are reported as due from other governments on the basic financial statements.

NOTE 19 – SUBSEQUENT EVENTS

The ESC purchased several licenses for an online course program through FuelEducation on behalf of 27 participating school districts. The amount of funds collected from the participating school districts used to purchase the licenses was \$1,252,650.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 4,950,024	\$ 4,950,024	\$ 4,948,872	\$ (1,152)
Earnings on investments	1,475	1,475	4,385	2,910
Contract services	6,072,888	6,072,888	6,338,558	265,670
Intergovernmental - state	916,983	916,983	887,192	(29,791)
Total revenues	<u>11,941,370</u>	<u>11,941,370</u>	<u>12,179,007</u>	<u>237,637</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,492,964	1,661,869	1,491,309	170,560
Special	2,197,286	2,197,286	2,393,493	(196,207)
Vocational	62,307	62,307	61,883	424
Other	477,710	477,710	519,521	(41,811)
Support services:				
Pupil	2,744,651	2,744,651	2,784,314	(39,663)
Instructional staff	1,803,673	1,803,673	1,838,478	(34,805)
Board of education	11,593	11,593	32,332	(20,739)
Administration	1,020,812	1,020,812	1,096,916	(76,104)
Fiscal	290,990	290,990	385,103	(94,113)
Business	289,835	289,835	308,602	(18,767)
Operations and maintenance	104,626	104,626	154,294	(49,668)
Central	320,360	320,360	390,165	(69,805)
Facilities acquisition and construction	-	-	260,042	(260,042)
Debt service:				
Principal	83,907	83,907	83,907	-
Interest and fiscal charges	6,502	6,502	6,502	-
Total expenditures	<u>10,907,216</u>	<u>11,076,121</u>	<u>11,806,861</u>	<u>(730,740)</u>
Net change in fund balance	1,034,154	865,249	372,146	(493,103)
Fund balance at beginning of year	<u>2,127,232</u>	<u>2,127,232</u>	<u>2,127,232</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,161,386</u>	<u>\$ 2,992,481</u>	<u>\$ 2,499,378</u>	<u>\$ (493,103)</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental - federal	\$ 1,250,000	\$ 1,250,000	\$ 1,448,979	\$ 198,979
Total revenue	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,448,979</u>	<u>198,979</u>
Expenditures:				
Current:				
Instruction:				
Regular	239,449	239,449	343,492	(104,043)
Other	371,613	371,613	509,079	(137,466)
Support Services:				
Instructional staff	530,337	530,337	726,381	(196,044)
Administration	7,574	7,574	10,374	(2,800)
Business	67,535	67,535	92,500	(24,965)
Pupil transportation	28,473	28,473	38,999	(10,526)
Operation of non-instructional services	5,019	5,019	6,874	(1,855)
Total expenditures	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,727,699</u>	<u>(477,699)</u>
Net change in fund balance	-	-	(278,720)	(278,720)
Fund balance (deficit) at beginning of year	(78,448)	(78,448)	(78,448)	-
Prior year encumbrances appropriated	109,396	109,396	109,396	-
Fund balance (deficit) at end of year	<u>\$ 30,948</u>	<u>\$ 30,948</u>	<u>\$ (247,772)</u>	<u>\$ (278,720)</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental - state	\$ 932,167	\$ 932,167	\$ 280,957	\$ (651,210)
Total revenue	<u>932,167</u>	<u>932,167</u>	<u>280,957</u>	<u>(651,210)</u>
Expenditures:				
Current:				
Instruction:				
Regular	932,167	932,167	196,693	735,474
Total expenditures	<u>932,167</u>	<u>932,167</u>	<u>196,693</u>	<u>735,474</u>
Net change in fund balance	-	-	84,264	84,264
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,264</u>	<u>\$ 84,264</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC Governing Board does follow the budgetary process for control purposes.

The ESC's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedule reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedule reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures 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. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedule reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedule represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

The schedule of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general, straight A grant and miscellaneous federal grants funds are as follows:

Net Change in Fund Balance

	<u>General fund</u>	<u>Miscellaneous Federal Grants</u>	<u>Straight A Grant Fund</u>
Budget basis	\$ 372,146	\$ (278,720)	\$ 84,264
Net adjustment for revenue accruals	(206,692)	197,875	-
Net adjustment for expenditure accruals	6,419	22,171	-
Net adjustment for other financing sources	14,441	-	-
Adjustment for encumbrances	<u>74,054</u>	<u>15,622</u>	<u>-</u>
GAAP basis	<u>\$ 260,368</u>	<u>\$ (43,052)</u>	<u>\$ 84,264</u>

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REQUIRED SUPPLEMENTARY INFORMATION

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ESC's proportion of the net pension liability	0.07053810%	0.07361000%	0.07361000%
ESC's proportionate share of the net pension liability	\$ 4,024,972	\$ 3,725,360	\$ 4,377,350
ESC's covered-employee payroll	\$ 2,123,566	\$ 2,138,968	\$ 2,177,327
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	201.04%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented for each fiscal year were determined as of the ESC's measurement date, which is the prior fiscal year end.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ESC's proportion of the net pension liability	0.05542284%	0.04972006%	0.04972006%
ESC's proportionate share of the net pension liability	\$ 15,317,252	\$ 12,093,639	\$ 14,405,864
ESC's covered-employee payroll	\$ 5,922,271	\$ 5,080,015	\$ 5,045,400
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.64%	238.06%	285.52%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented for each fiscal year were determined as of the ESC's measurement date, which is the prior fiscal year end.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ESC CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 310,282	\$ 279,886	\$ 296,461	\$ 301,342
Contributions in relation to the contractually required contribution	<u>(310,282)</u>	<u>(279,886)</u>	<u>(296,461)</u>	<u>(301,342)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 2,216,300	\$ 2,123,566	\$ 2,138,968	\$ 2,177,327
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 257,660	\$ 210,994	\$ 195,498	\$ 110,440	\$ 119,136	\$ 121,876
<u>(257,660)</u>	<u>(210,994)</u>	<u>(195,498)</u>	<u>(110,440)</u>	<u>(119,136)</u>	<u>(121,876)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,915,688	\$ 1,678,552	\$ 1,443,855	\$ 1,122,358	\$ 1,213,198	\$ 1,141,161
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ESC CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 862,725	\$ 829,118	\$ 660,402	\$ 655,902
Contributions in relation to the contractually required contribution	<u>(862,725)</u>	<u>(829,118)</u>	<u>(660,402)</u>	<u>(655,902)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 6,162,321	\$ 5,922,271	\$ 5,080,015	\$ 5,045,400
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 566,494	\$ 522,298	\$ 519,268	\$ 451,465	\$ 469,979	\$ 470,335
<u>(566,494)</u>	<u>(522,298)</u>	<u>(519,268)</u>	<u>(451,465)</u>	<u>(469,979)</u>	<u>(470,335)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,357,646	\$ 4,017,677	\$ 3,994,369	\$ 3,472,808	\$ 3,615,223	\$ 3,617,962
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY, OHIO**

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program			
Distance Learning and Telemedicine Grant Program	10.855	N/A	\$396,853
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Program):			
National School Lunch Program	10.555	2015 / 2016	625
Cash Assistance:			
School Breakfast Program	10.553	2015 / 2016	27,955
National School Lunch Program	10.555	2015 / 2016	32,392
Cash Assistance Subtotal			<u>60,347</u>
Total Child Nutrition Cluster			<u>60,972</u>
Total U.S. Department of Agriculture			457,825
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Educational Agencies	84.010	2015 S010A150035	44,085 <u>96,777</u>
Total Title I Grants to Local Educational Agencies			140,862
Special Education Cluster (IDEA):			
Special Education - Preschool Grants	84.173	2015 H173A150119	9,877 <u>52,547</u>
Total Special Education Cluster (IDEA)			62,424
Twenty-First Century Community Learning Centers	84.287	2015 S287C150035	109,396 <u>1,205,829</u>
Total Twenty-First Century Community Learning Centers			<u>1,315,225</u>
Total U.S. Department of Education			<u>1,518,511</u>
Total Expenditures of Federal Awards			<u><u>\$1,976,336</u></u>

The accompanying notes are an integral part of this schedule.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the ESC under programs of the federal government for the year ended June 30, 2016. 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 ESC, it is not intended to and does not present the financial position, changes in net position, or cash flows of the ESC.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

The ESC reports commodities consumed on the Schedule at the entitlement value. The ESC allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

East Central Ohio Educational Service Center
Tuscarawas County
834 East High Ave.
New Philadelphia, Ohio 44663

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio (the ESC), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 13, 2017, wherein we noted the June 30, 2015 net position was restated to correct the Title I A Fund classification.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the ESC's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the ESC'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 ESC's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider Finding 2016-001 to be a material weakness.

Compliance and Other Matters

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

ESC's Response to Findings

The ESC's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the ESC'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 ESC's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the ESC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2017



Dave Yost • Auditor of State

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

East Central Ohio Educational Service Center
Tuscarawas County
834 East High Ave.
New Philadelphia, Ohio 44663

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the East Central Ohio Educational Service Center's, Tuscarawas County, Ohio (the ESC), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the ESC's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the ESC's major federal program.

Management's Responsibility

The ESC's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the ESC complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

The ESC'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 ESC'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 the ESC's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying Schedule of Findings as item 2016-002.

The ESC's response to the internal control over compliance finding we identified is described in the accompanying Corrective Action Plan. We did not audit the ESC's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State
Columbus, Ohio

March 13, 2017

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): <ul style="list-style-type: none"> • Twenty-First Century Community Learning Centers – CFDA #84.287 	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR Part 200.520?	No

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

FINDING NUMBER 2016-001

Material Weakness

The ESC should maintain an accounting system and accounting records sufficient to enable the ESC to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements in accordance with generally accepted accounting principles.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2016-001 (Continued)

Material Weakness (Continued)

As a result of audit procedures performed, errors were noted in the ESC's financial statements and GAAP conversion that required audit adjustments as follows:

- The ESC receives Title I-D funds to be used for tutoring services at four detention centers located within the St. Clairsville City School District. As the ESC hires the tutors that provide the services, the Title I-D activity should be classified in a special revenue fund. However, the ESC improperly recorded this activity in an agency fund. As the Title-D funds were reflected as agency funds in the prior audit, the special revenue beginning fund balance was restated by \$40,472. Additionally, current year cash basis revenue and expenses within the special revenue fund was increased by \$71,109 and \$140,862, respectively. Adjustments to record accrual activity within the special revenue fund for Title I-D Activity included increases to Due from Other Governments, Accrued Wages, Due to Other Governments, Pension Obligation Payable, Accounts Payable, and Due to Other Funds in the amounts of \$152,258, \$13,185, \$191, \$1,846, \$1,554, and \$29,281 respectively. Likewise, adjustments to the agency fund include decreasing Accounts Payable, Accrued Wages, Pension Obligation Payable, Loan Payable, Intergovernmental Payable, and Intergovernmental Receivable by \$1,554, \$13,185, \$1,846, \$29,281, \$106,392, and \$152,258.
- The ESC understated the Intergovernmental Receivable and the Deferred Inflow - Intergovernmental Revenue Not Available within the Miscellaneous Federal Grants Fund by \$36,000 at June 30, 2016, for the USDA grant. This error occurred as the total grant award from the agreement was not properly recorded in the calculation.

Sound financial reporting is the responsibility of the ESC and is essential to help ensure the information provided to the readers of the financial statements is complete and accurate. The ESC financial statements have been adjusted accordingly.

To help ensure the ESC financial statements are complete and accurate, the ESC should adopt policies and procedures to identify and correct errors and omissions in reporting.

Officials' Response: See Corrective Action Plan.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2016-002		
CFDA Title and Number	Twenty-First Century Community Learning Centers - CFDA #84.287		
Federal Award Identification Number / Year	S287C150035		
Federal Agency	U.S. Department of Education		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	N/A

Significant Deficiency

The ESC has established a process for individuals requesting to purchase items with 21st Century grant federal funds. The individual must first submit a requisition form that lists the vendor, quantity and description of items to be purchased, unit price, total price, and fund. A purchase order, which reflects the fund, function, and object, is then created and approved by the Treasurer. When invoices are received, they are checked by the Treasurer's staff for accuracy. The information is entered into the ESC's general ledger by Treasurer's Office personnel.

However, one transaction of 40 tested did not follow the control process. Although the requisition form and purchase order form was approved by the respective supervisors, the only supporting documentation attached to the warrant of federal monies was a potential on-line cart order. The on-line cart order showed that the individual intended to purchase \$88 for various items. The ESC issued a check to the individual in the amount of \$100. Upon request during the audit, the individual was able to provide detail store receipts totaling over \$107 in expenditures. Although it was determined that the individual purchased allowable items with the federal funds, the ESC failed to monitor the use of federal funds since the detailed store receipts were not originally obtained by the ESC.

The ESC should review their system of internal control over non-payroll Federal expenditures. The ESC should consider amending the process to avoid advancing individuals Federal monies and instead consider reimbursement. Additionally, the ESC should consider having a knowledgeable individual, such as the grant coordinator, review each invoice prior to any payments being made with federal monies. This will help ensure that funds are safeguarded against unauthorized use.

Officials' Response: See Corrective Action Plan.

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR PART 200.511(b)
JUNE 30, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Errors in posting receipts/ revenues and accounts receivable	Not corrected	Finding was repeated as Finding 2016- 001.

**EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY**

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Upon signing the initial "Contract for Management of Title I-D Services" between St. Clairsville-Richland City School District and East Central Ohio ESC in FY2011, all Title I-D activity was determined to be properly reported in an Agency Fund by previous management. Upon initial discussion between current treasurer and AOS staff during the FY2016 audit, it was mutually agreed that the activity would be more appropriately reported in a Special Revenue Fund.	March 7, 2017	Matt King, Treasurer
2016-002	While ESC officials agree that supporting documentation was not attached to the voucher packet, receipts were provided by the employee at the request of the employer, showing sufficient proof of allowable purchases. Furthermore, the ESC administration immediately amended the purchasing process to prevent the risk of unauthorized use by now requiring employees to seek reimbursement for approved supplies/materials upon review/approval by Treasurer's Office staff, rather than advancing employees via check and returning the balance with appropriate receipts/supporting documentation.	March 7, 2017	Matt King, Treasurer

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Dave Yost • Auditor of State

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 23, 2017