MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING COUNTY, OHIO

AUDIT REPORT

For the Fiscal Year Ended June 30, 2015

Charles E. Harris & Associates
certified public accountants & government consultants

Dave Yost • Auditor of State

Board of Education
Mahoning County Educational Services
100 DeBartolo Place, Suite 220
Youngstown, Ohio 44512

We have reviewed the *Independent Auditor's Report* of the Mahoning County Educational Services, Mahoning County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

April 25, 2016

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY
TABLE OF CONTENTS

TITLE	PAGE

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INDEPENDENT AUDITOR'S REPORT

Mahoning County Educational Service Center
Mahoning County
100 DeBartolo Place Suite 220
Youngstown, Ohio 44512

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center, Mahoning County, Ohio (the ESC), as of and for the year ended June 30, 2015, 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center, Mahoning County, Ohio, as of June 30, 2015, 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, during the fiscal year ended June 30, 2015, the ESC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. We did not modify our opinion regarding these matters.

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 Information

Our audit was conducted to opine on the ESC's basic financial statements taken as a whole. The budgetary comparison schedule presents additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Awards Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is 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 these 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 January 21, 2016, 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.

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.
January 21, 2016

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The management's discussion and analysis of the Mahoning County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2015. 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 2015 are as follows:

- In total, net position of governmental activities increased $800,022 which represents a 2.13% increase from 2014.

- General revenues accounted for $1,196,003 in revenue or 4.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $25,154,145 or 95.46% of total revenues of $26,350,148.

- The ESC had $25,550,126 in expenses related to governmental activities; $25,154,145 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of $1,196,003 were adequate to provide for these programs.

- The ESC's major governmental funds are the general fund and permanent improvement fund. The general fund had $20,705,107 in revenues and other financing sources and $20,830,900 in expenditures and other financing uses. During fiscal year 2015, the general fund's fund balance decreased from $322,847 to $197,054.

- The permanent improvement fund is a major fund for the ESC and had other financing sources (transfers) of $120,000 and expenditures of $117,587. During fiscal year 2015, the permanent improvement fund's fund balance increased from $681,006 to $683,419.

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 s*tatement of net position* and s*tatement 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. In the case of the ESC, the general fund and the permanent improvement fund are the only governmental funds reported as major funds.

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 2015?" The statement of net position and the statement of activities answer this question. These statements include *all assets, liabilities, 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 issues, 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, pupil transportation and extracurricular activities.

The government-wide financial statements include not only the activity of the ESC itself (known as the primary government), but also a separate community school for which the ESC is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government.

The ESC's statement of net position and statement of activities can be found on pages 15-16 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 12. 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 and the permanent improvement 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 17-20 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. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 21. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

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 23-62 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 68 through 74 of this report.

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, 2015 and June 30, 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

Net Position

	Governmental Activities 2015	Restated Governmental Activities 2014
Assets		
Current and other assets	$ 6,201,114	$ 5,913,414
Capital assets, net	115,163	118,318
Total assets	6,316,277	6,031,732
Deferred outflows of resources		
Pensions	2,566,739	2,143,882
Total deferred outflows of resources	2,566,739	2,143,882
Liabilities		
Current liabilities	2,959,444	2,819,390
Long-term liabilities:		
Due within one year	278,350	184,850
Due in more than oe year:		
Net pension liability	35,463,040	42,109,003
Other amounts	484,996	537,519
Long-term liabilities	36,226,386	42,831,372
Total liabilities	39,185,830	45,650,762
Deferred inflows of resources		
Pensions	6,372,312	-
Total deferred inflows of resources	6,372,312	-
Net position		
Net investment in capital assets	93,472	88,652
Restricted	812,919	772,796
Unrestricted (deficit)	(37,581,517)	(38,336,596)
Total net position (deficit)	$ (36,675,126)	$ (37,475,148)

During 2015, the ESC adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District'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.

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

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

As a result of implementing GASB 68, the ESC is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $2,489,973 to $(37,475,148).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the ESC's liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by $36,675,126.

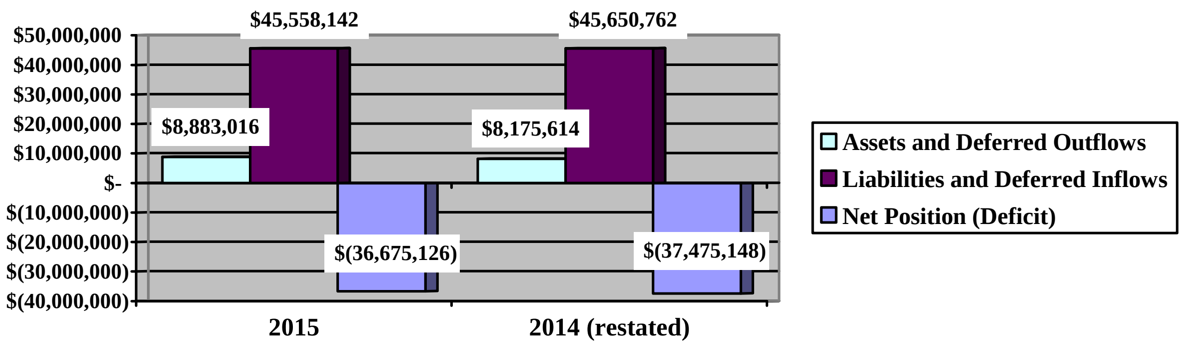
Overall, assets for the ESC increased and liabilities decreased. The increase in assets is related to an increase in receivables (grants and billings for user-charged services) and cash and investments at year-end. Unearned revenue (payments made by member organizations to the ESC for services that have yet to be provided by year-end) were slightly higher for fiscal year 2015; however, total liabilities were lower due to a significant decrease in the ESC's net pension liability. This decrease was offset by a similarly large increase in deferred inflows related to pensions.

At June 30, 2015, capital assets represented 1.82% of total assets. Capital assets include land improvements, furniture and equipment and vehicles. The net investment in capital assets at June 30, 2015 was $93,472. These capital assets are used to provide services to the students and are not available for future spending.

At June 30, 2015, a portion of the ESC's net position, $812,919, represents resources that are subject to external restriction on how they may be used. Of this total, $601,020 represents resources that are restricted for the ESC's federally funded grant programs. The remaining balance of unrestricted net position at June 30, 2015 is a deficit of $37,581,517.

The table below illustrates the ESC's assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2015 and 2014. Net position for 2014 has been restated as described in Note 3.A.

Governmental Activities



The table below shows the change in net position for fiscal years 2015 and 2014. Net position for 2014 has been restated as described in Note 3.A.

Change in Net Position

	Governmental Activities 2015	Restated Governmental Activities 2014
Revenues		
Program revenues:		
Charges for services and sales	$ 19,378,364	$ 18,361,089
Operating grants and contributions	5,775,781	5,941,590
General revenues:		
Grants and entitlements	985,788	1,149,242
Investment earnings	23,584	35,830
Other	186,631	158,822
Total revenues	26,350,148	25,646,573

-continued

Change in Net Position (Continued)

	Governmental Activities 2015	Restated Governmental Activities 2014
Expenses		
Program expenses:		
Instruction:		
Regular	$ 3,975,822	$ 2,817,204
Special	5,468,456	5,705,729
Vocational	63,452	65,862
Adult/continuing	15,659	91,178
Other	280,973	217,507
Support services:		
Pupil	5,416,958	6,254,837
Instructional staff	6,124,353	5,735,031
Board of education	34,671	56,005
Administration	786,980	768,059
Fiscal	599,467	617,784
Business	516,513	476,029
Operations and maintenance	303,366	362,193
Pupil transportation	96,962	5,676
Central	803,243	702,006
Operation of non-instructional services	1,054,448	1,184,780
Extracurricular activities	7,010	7,165
Interest and fiscal charges	1,793	2,321
Total expenses	25,550,126	25,069,366
Change in net position	800,022	577,207
Net position (deficit) at beginning of year (restated)	(37,475,148)	N/A
Net position (deficit) at end of year	$ (36,675,126)	$ (37,475,148)

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of $2,143,882 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $1,538,089.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	$ 25,550,126
Pension expense under GASB 68	(1,538,089)
2015 contractually required contributions	2,234,597
Adjusted 2015 program expenses	26,246,634
Total 2014 program expenses under GASB 27	25,069,366
Increase in program expenses not related to pensions	$ 1,177,268

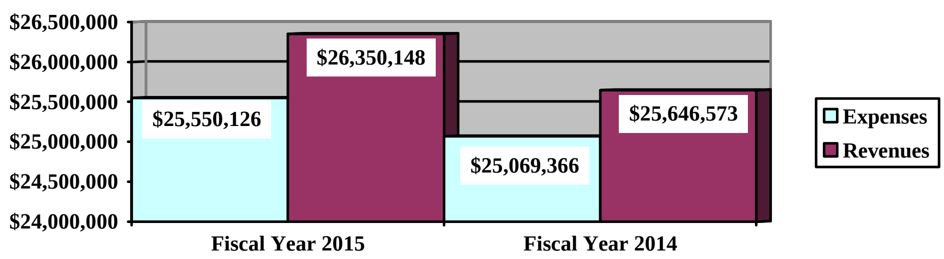
Net position of the ESC's governmental activities increased $880,022. Total governmental expenses of $25,550,126 were offset by program revenues of $25,154,145 and general revenues of $1,196,003. Program revenues supported 98.45% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales, and operating grants and contributions. These revenue sources represent 95.46% of total governmental revenue. Overall, revenues increased in fiscal year 2015, which is mostly due to increased contracted services with member entities as the ESC picked up three additional school districts for 2015. The decrease in operating grants and contributions is largely the result of less State and Federal revenue for the Help Me Grow grant program in 2015. The ESC also saw a decrease in unrestricted grants and entitlements, mostly due to the continued decline in unrestricted State Foundation aid for ESCs.

The overall increase in expenses is mostly the result of additional service requests from member entities. The largest expense of the ESC is for support services, which were $14,682,513 or 57.47% of total governmental expenses for fiscal year 2015. Instruction expenses accounted for another $9,804,362 or 38.37% of the total expenses.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal years 2015 and 2014.

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 general revenues such as unrestricted grants and entitlements.

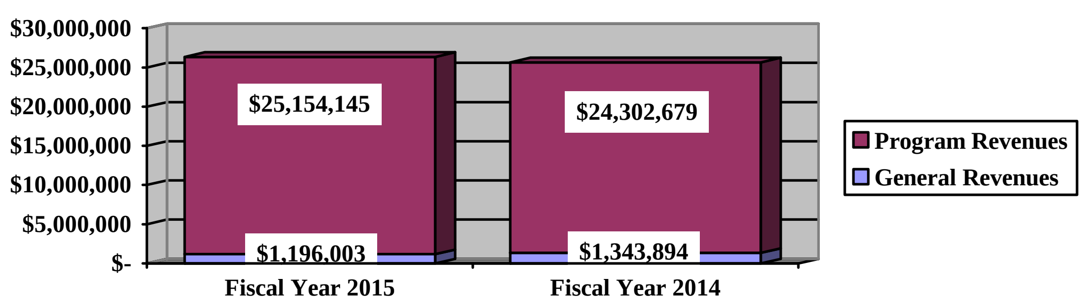
Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Program expenses				
Instruction:				
Regular	$ 3,975,822	$ 3,854,496	$ 2,817,204	$ 2,794,253
Special	5,468,456	(1,474,446)	5,705,729	(1,038,818)
Vocational	63,452	63,452	65,862	65,862
Adult/continuing	15,659	15,659	91,178	(5,013)
Other	280,973	120,570	217,507	15,572
Support services:				
Pupil	5,416,958	(1,557,907)	6,254,837	(1,054,186)
Instructional staff	6,124,353	(926,873)	5,735,031	(482,043)
Board of education	34,671	23,671	56,005	45,005
Administration	786,980	(171,221)	768,059	(126,552)
Fiscal	599,467	(132,253)	617,784	(89,971)
Business	516,513	516,513	476,029	476,029
Operations and maintenance	303,366	252,742	362,193	309,617
Pupil transportation	96,962	96,719	5,676	5,676
Central	803,243	(209,009)	702,006	(121,700)
Operation of non-instructional services	1,054,448	(80,109)	1,184,780	(31,630)
Extracurricular activities	7,010	2,184	7,165	2,265
Interest and fiscal charges	1,793	1,793	2,321	2,321
Total expenses	$ 25,550,126	$ 395,981	$ 25,069,366	$ 766,687

The ESC's charges for services and sales and operating grants and contributions, as a whole, are the primary support for ESC's students. Nonetheless, the dependence upon other general revenues for governmental activities is apparent; 26.31% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 1.55%.

The graph below presents the ESC's governmental activities revenue for fiscal years 2015 and 2014.

Governmental Activities - General and Program Revenues



The ESC's Funds

At June 30, 2015, the ESC's governmental funds reported a combined fund balance of $1,377,727, which represents a decrease from last year's total of $1,494,979. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	Fund Balance June 30, 2015	Fund Balance June 30, 2014	Increase (Decrease)	Percentage Change
General	$ 197,054	$ 322,847	$ (125,793)	(38.96) %
Permanent improvement	683,419	681,006	2,413	0.35 %
Nonmajor governmental	497,254	491,126	6,128	1.25 %
Total	$ 1,377,727	$ 1,494,979	$ (117,252)	(7.84) %

General Fund

The ESC's general fund balance decreased by $125,793. The tables that follow assist in illustrating the financial activities and change in fund balance of the general fund.

	2015 Amount	2014 Amount	Increase (Decrease)	Percentage Change
Revenues				
Customer services	$ 17,853,446	$ 16,009,685	$ 1,843,761	11.52 %
Tuition	1,000,830	1,122,140	(121,310)	(10.81) %
Earnings on investments	26,847	34,436	(7,589)	(22.04) %
Intergovernmental	1,636,783	1,837,284	(200,501)	(10.91) %
Other revenues	186,701	158,297	28,404	17.94 %
Total	$ 20,704,607	$ 19,161,842	$ 1,542,765	8.05 %
Expenditures				
Instruction	$ 9,385,279	$ 8,454,934	$ 930,345	11.00 %
Support services	10,829,114	10,202,290	626,824	6.14 %
Non-instructional services	486,739	638,283	(151,544)	(23.74) %
Debt service	9,768	9,768	-	- %
Total	$ 20,710,900	$ 19,305,275	$ 1,405,625	7.28 %

The primary source of revenue for the general fund comes from customer services and tuition revenues, which collectively comprise the revenue earned from services provided to other school districts. These two sources combined accounted for 91.06% of total general fund revenues in 2015, compared to 89.41% in the prior year. The State Budget Bill in place for fiscal year 2015 reduced funding to Educational Service Centers throughout the State, which led to a decrease in intergovernmental revenue from the State. In addition, the ESC saw a decrease in Help Me Grow grant funding from the State and Federal governments. The expenditures for the Help Me Grow program are mostly reported as non-instructional services expenditures. The overall increase in general fund expenditures is primarily due to increased service requests from member districts.

Permanent Improvement Fund

The permanent improvement fund is used to accumulate resources for the capital replacement needs of the ESC. The fund had other financing sources, consisting of transfers from the general fund, of $120,000 and expenditures of $117,587. During fiscal year 2015, the permanent fund's fund balance increased from $681,006 to $683,419.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the ESC had $115,163 invested in land improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2015 balances compared to June 30, 2014:

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2015	2014
Land improvements	$ -	$ 248
Furniture and equipment	101,986	118,070
Vehicles	13,177	-
Total	$ 115,163	$ 118,318

Capital asset acquisitions in fiscal year 2015 were $19,934 and depreciation expense for the year was $23,089. See Note 7 in the notes to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2015, the ESC had a capital lease obligation outstanding in the amount of $21,691. Of this total, $8,542 is due within one year and $13,149 is due in more than one year. See Notes 8 and 9 in the notes to the basic financial statements for additional information on the ESC's debt administration.

Current Financial Related Activities

The ESC relies heavily on contracts with local, city, parochial and community schools in Mahoning County, State Foundation revenue, grants and the fiscal agency role we provide to several entities. The ESC's financial condition has remained stable. Through new contracts with locals, sponsorship capability and providing the fiscal and administrative role to several entities, the ESC will be able to provide the necessary funds to meet operating expenses in the future.

There are some challenges that the ESC faces that can affect funding. One challenge the ESC faces is the State's financial situation. The State has reduced dollars to the ESC's State Foundation, major programs and grants. These funds provide support to the ESC's programs that are offered to the districts the ESC serves. Without these funds local districts are forced to pay more of the services they contract for. The ESC is very sensitive to the cost of its programs to Mahoning County districts. Because of the funding reductions made from the State, the ESC's districts may be forced to contract for services from other entities who offer a better price.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Blaise Karlovic, Treasurer, Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 220, Youngstown, Ohio 44512-7019.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government	Component Unit
	Governmental Activities	**Mahoning Unlimited Classroom**
Assets:		
Equity in pooled cash and investments	$ 3,558,932	$ 483,416
Receivables:		
Accounts	25,456	-
Intergovernmental	2,569,890	76,823
Accrued interest	5,179	-
Materials and supplies inventory	41,657	-
Capital assets:		
Depreciable capital assets, net	115,163	24,786
Capital assets, net	115,163	24,786
Total assets	6,316,277	585,025
Deferred outflows of resources:		
Pension - STRS	1,860,006	290
Pension - SERS	706,733	-
Total deferred outflows of resources	2,566,739	290
Liabilities:		
Accounts payable	37,495	322
Accrued wages and benefits payable	1,773,162	-
Intergovernmental payable	101,451	56,696
Pension and postemployment benefits payable	299,293	-
Unearned revenue	748,043	-
Long-term liabilities:		
Due within one year	278,350	-
Due in more than one year:		
Net pension liability (See Note 12)	35,463,040	30,091
Other amounts due in more than one year	484,996	-
Total liabilities	39,185,830	87,109
Deferred inflows of resources:		
Pension - STRS	5,024,723	5,567
Pension - SERS	1,347,589	-
Total deferred inflows of resources	6,372,312	5,567
Net position:		
Net investment in capital assets	93,472	24,786
Restricted for:		
Capital projects	9,817	-
Locally funded programs	112,155	-
State funded programs	68,944	10,600
Federally funded programs	601,020	23,859
Student activities	4,252	-
Other purposes	16,731	-
Unrestricted (deficit)	(37,581,517)	433,394
Total net position (deficit)	$ (36,675,126)	$ 492,639

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position	
				Primary Government	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Component Unit
Governmental activities:					
Instruction:					
Regular	$ 3,975,822	$ 18,861	$ 102,465	$ (3,854,496)	$ -
Special	5,468,456	6,679,281	263,621	1,474,446	-
Vocational	63,452	-	-	(63,452)	-
Adult/continuing.	15,659	-	-	(15,659)	-
Other	280,973	160,331	72	(120,570)	-
Support services:					
Pupil.	5,416,958	6,459,769	515,096	1,557,907	-
Instructional staff	6,124,353	3,744,645	3,306,581	926,873	-
Board of education	34,671	11,000	-	(23,671)	-
Administration.	786,980	797,427	160,774	171,221	-
Fiscal.	599,467	607,815	123,905	132,253	-
Business.	516,513	-	-	(516,513)	-
Operations and maintenance	303,366	5,016	45,608	(252,742)	-
Pupil transportation.	96,962	-	243	(96,719)	-
Central	803,243	887,887	124,365	209,009	-
Operation of non-instructional services	1,054,448	1,506	1,133,051	80,109	-
Extracurricular activities.	7,010	4,826	-	(2,184)	-
Interest and fiscal charges	1,793	-	-	(1,793)	-
Total governmental activities	$ 25,550,126	$ 19,378,364	$ 5,775,781	(395,981)	-
Component unit:					
Mahoning Unlimited Classroom	$ 950,608	$ 3,948	$ 961,665	-	15,005
General revenues:					
Grants and entitlements not restricted to specific programs				985,788	80,903
Investment earnings				23,584	120
Miscellaneous				186,631	-
Total general revenues				1,196,003	81,023
Change in net position				800,022	96,028
Net position (deficit) at beginning of year (restated)				(37,475,148)	396,611
Net position (deficit) at end of year				$ (36,675,126)	$ 492,639

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	$ 2,501,688	$ 683,419	$ 373,825	$ 3,558,932
Receivables:				
Accounts	19,162	-	6,294	25,456
Intergovernmental	1,577,030	-	992,860	2,569,890
Accrued interest	5,179	-	-	5,179
Interfund loans	214,806	-	-	214,806
Materials and supplies inventory	41,657	-	-	41,657
Due from other funds	108,483	-	-	108,483
Loans to other funds	2,614	-	-	2,614
Total assets	$ 4,470,619	$ 683,419	$ 1,372,979	$ 6,527,017
Liabilities:				
Accounts payable	$ 31,212	$ -	$ 6,283	$ 37,495
Accrued wages and benefits payable	1,637,809	-	135,353	1,773,162
Compensated absences payable	129,529	-	2,764	132,293
Intergovernmental payable	88,187	-	13,264	101,451
Pension and postemployment benefits payable	275,713	-	23,580	299,293
Interfund loans payable	-	-	214,806	214,806
Due to other funds	-	-	108,483	108,483
Loans from other funds	-	-	2,614	2,614
Unearned revenue	747,598	-	445	748,043
Total liabilities	2,910,048	-	507,592	3,417,640
Deferred inflows of resources:				
Customer services revenue not available	1,358,673	-	-	1,358,673
Tuition revenue not available	-	-	140	140
Intergovernmental revenue not available	-	-	362,809	362,809
Accrued interest not available	4,844	-	-	4,844
Miscellaneous revenue not available	-	-	5,184	5,184
Total deferred inflows of resources	1,363,517	-	368,133	1,731,650
Fund balances:				
Nonspendable:				
Materials and supplies inventory	41,657	-	-	41,657
Long-term loans	2,614	-	-	2,614
Unclaimed monies	12,178	-	-	12,178
Restricted:				
Capital improvements	-	-	9,817	9,817
Special education	-	-	25,443	25,443
Other purposes	-	-	514,407	514,407
Student activities	-	-	4,252	4,252
Committed:				
Capital improvements	-	683,419	-	683,419
Assigned:				
Student and staff support	65,558	-	-	65,558
Other purposes	75,047	-	-	75,047
Unassigned (deficit)	-	-	(56,665)	(56,665)
Total fund balances	197,054	683,419	497,254	1,377,727
Total liabilities, deferred inflows of resources and fund balances	$ 4,470,619	$ 683,419	$ 1,372,979	$ 6,527,017

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

Total governmental fund balances		$ 1,377,727
Amounts reported for governmental activities on the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		115,163
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Customer services receivable	$ 1,358,673	
Tuition receivable	140	
Other accounts receivable	5,184	
Accrued interest receivable	4,844	
Intergovernmental receivable	362,809	
Total		1,731,650
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred inflows and outflows of resources are not reported in governmental funds.		
Deferred outflows of resources - pension	2,566,739	
Deferred inflows of resources - pension	(6,372,312)	
Net pension liability	(35,463,040)	
Total		(39,268,613)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(609,362)	
Capital lease obligations	(21,691)	
Total		(631,053)
Net position of governmental activities		$ (36,675,126)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Tuition	$ 1,000,830	$ -	$ 245,693	$ 1,246,523
Earnings on investments	26,847	-	-	26,847
Charges for services	570	-	-	570
Customer services	17,853,446	-	-	17,853,446
Other local revenues	186,131	-	96,372	282,503
Intergovernmental - intermediate	-	-	139	139
Intergovernmental - state	1,562,270	-	911,757	2,474,027
Intergovernmental - federal	74,513	-	4,221,423	4,295,936
Total revenues	20,704,607	-	5,475,384	26,179,991
Expenditures:				
Current:				
Instruction:				
Regular	3,943,152	-	106,626	4,049,778
Special	5,294,523	-	333,944	5,628,467
Vocational	65,477	-	-	65,477
Adult/continuing	13,627	-	-	13,627
Other	68,500	-	212,473	280,973
Support services:				
Pupil	5,159,982	-	482,270	5,642,252
Instructional staff	2,937,737	-	3,352,531	6,290,268
Board of education	25,624	-	9,419	35,043
Administration	636,975	-	162,280	799,255
Fiscal	485,515	-	121,541	607,056
Business	540,822	-	-	540,822
Operations and maintenance	251,211	-	51,992	303,203
Pupil transportation	96,712	-	250	96,962
Central	694,536	-	152,918	847,454
Operation of non-instructional services	486,739	-	476,002	962,741
Extracurricular activities	-	-	7,010	7,010
Facilities acquisition and construction	-	117,587	-	117,587
Debt service:				
Principal retirement	7,975	-	-	7,975
Interest and fiscal charges	1,793	-	-	1,793
Total expenditures	20,710,900	117,587	5,469,256	26,297,743
Excess (deficiency) of revenues over (under) expenditures	(6,293)	(117,587)	6,128	(117,752)
Other financing sources (uses):				
Sale/loss of assets	500	-	-	500
Transfers in	-	120,000	-	120,000
Transfers (out)	(120,000)	-	-	(120,000)
Total other financing sources (uses)	(119,500)	120,000	-	500
Net change in fund balances	(125,793)	2,413	6,128	(117,252)
Fund balances at beginning of year	322,847	681,006	491,126	1,494,979
Fund balances at end of year	$ 197,054	$ 683,419	$ 497,254	$ 1,377,727

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING 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, 2015

Net change in fund balances - total governmental funds		$ (117,252)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	$ 19,934	
Current year depreciation	(23,089)	
Total		(3,155)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Customer services	195,043	
Tuition	(1,682)	
Earnings on investments	(3,263)	
Intergovernmental	(25,625)	
Other revenues	5,184	
Total		169,657
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.		7,975
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.		2,234,597
Except for amounts reported as deferred inflows/outflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.		(1,538,089)
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.		46,289
Change in net position of governmental activities		$ 800,022

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2015

		Agency
Assets:		
Equity in pooled cash andinvestments	$	517,355
Receivables:		
Intergovernmental		146,011
Total assets.	$	663,366
Liabilities:		
Accounts payable.	$	827
Accrued wages and benefits		530
Pension and postemployment benefits payable. .		74
Intergovernmental payable		2,993
Undistributed monies.		658,942
Total liabilities	$	663,366

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - DESCRIPTION OF THE ESC

On July 18, 1914, the Mahoning County Governing Board was formed. In 1996 the Governing Board, as required by State law, underwent a name change to the Mahoning County Educational Service Center (the "ESC"). The ESC provides administrative, curricular, instructional, pupil personnel and professional staff development services to local school districts. Direct instructional programs are provided to students with disabilities, preschool students and their families.

The ESC operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State and federal agencies. The Governing Board oversees the ESC's operation and its staff of 247 certified and 65 non-certified personnel. Staff members support the educational efforts of 18 school districts, 3 community schools and various other entities throughout the County.

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 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 one component unit, which is discussed below.

The ESC sponsors the Mahoning County High School (the "School"), which is a legally separate, start-up community school. The ESC acts as fiscal agent for the School; however, the ESC is not fiscally accountable, therefore the School is not reported as part of the reporting entity of the ESC.

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

COMPONENT UNIT

Mahoning Unlimited Classroom ("MUC")
The MUC is a legally separate, conversion community school, served by a Board of Directors. The MUC focuses on providing students with curriculum and instruction via distance learning technology. The seven person Board of Directors, appointed by the ESC, consists of three persons employed in administrator positions with the ESC, one person employed in an administrator position with the Mahoning County Career and Technical Center ("MCCT"), one person who is neither an officer nor employee of the ESC or MCCT who shall be a public educator or other public officer, one person who is appointed to represent the interests of the parents and students of the MUC, and the MUC's Treasurer. The MUC Treasurer is a non-voting ex-officio of the Board of Directors. The ESC sponsored the MUC during fiscal year 2015 under Ohio Revised Code Chapter 3314. Based on the significant services provided by the ESC to the MUC, the MUC's purpose of service to the students within the district, and the relationship between the Governing Board of the ESC and the Board of Directors of the MUC, the MUC is a component unit of the ESC. Separately issued financial statements can be obtained from the ESC's Treasurer. See Note 16 for additional information on the MUC.

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)
ACCESS is a jointly governed organization among 26 school districts, 2 special education resource center, 2 county educational service centers and 20 non-public schools. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The eight-member Board of Directors consists of 2 treasurers and 6 superintendents from participating school districts. The ACCESS executive director and treasurer are ex-officio members of the Board of Directors. The degree of control exercised by any participating school district is limited to its representation on the Board. The ESC is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. The consortium revenues are generated from charges for services, State funding and E-rateable services.

State Support Team Region 5 (SST)
The SST is a jointly governed organization among the school districts located in Trumbull, Mahoning and Columbiana Counties and Youngstown City. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement and in particular, to improvements in instructional programs.

The SST is governed by a Governing Board made up of 19 representatives of the participating school districts, the business community and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The ESC serves as fiscal agent for the SST.

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

RELATED ORGANIZATION

Mahoning County Career and Technical Center
The Mahoning County Career and Technical Center is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The 5 members of the Governing Board of the ESC are also members of the Governing Board of the Mahoning County Career and Technical Center, which includes 2 other members. The Governing Board of the ESC cannot directly impose their will on the Mahoning County Career and Technical Center.

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials
The ESC participates in a group rating plan (GRP) for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. 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. Each year, the ESC pays an enrollment fee to the GRP to cover the costs of administering the program.

Mahoning County School Employees Insurance Consortium
The Mahoning County School Employees Insurance Consortium is a shared risk pool comprised of 13 public school districts. The consortium is governed by an assembly, which consists of 1 representative from each participating school district (usually the superintendent or designee). The assembly elects officers for 1 year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

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 liabilities plus deferred inflows of resources is reported as fund balance. 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.

Permanent improvement fund - This fund is used to account for the accumulation of resources to be used for the future capital needs of the ESC.

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

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. The ESC's only fiduciary funds are agency 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.

C. Basis of Presentation and Measurement Focus

<u>*Government-wide Financial Statements*</u> - 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 all liabilities associated with the operation of the ESC are included on the statement of net position.

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

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

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 - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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: tuition, grants, interest and contract services.

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, deferred outflows of resources have been reported for the following two items related the ESC's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the ESC's contributions to the pension systems subsequent to the measurement date.

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 amounts for 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, tuition, services provided to other entities and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

The ESC also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments 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. Budgetary Process

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

F. State Funding

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

Part (B) of the budget is funded in the following way: $6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, $37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

If additional funding is required and if a majority of the Boards of Education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of $43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation. The State Board of Education initiates and supervises the procedure by which the participating Boards approve or disapprove the apportionment.

G. 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 investments" on the basic financial statements.

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

During fiscal year 2015, investments were limited to federal agency securities, negotiable CDs, money market mutual funds and State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2015 amounted to $26,847, which includes $10,895 assigned from other ESC 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. Investments with an initial maturity of more than three months are reported as investments.

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

H. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method. Inventory consists of expendable supplies held for consumption.

On the fund financial statements, reported supplies inventory is equally offset by nonspendable fund balance which indicates that it does not constitute available spendable resources, even though it is a component of net current assets.

I. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported 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 maintains a capitalization threshold of $1,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

All reported capital assets 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:

Description	Governmental Activities Estimated Lives
Land improvements	5 years
Furniture and equipment	5 - 15 years
Vehicles	10 - 11 years

J. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies the method used to accrue liabilities for leave benefits. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 all certified and classified 260 day employees.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that is probable that benefits will result in termination payments. The liability is an estimate based on the ESC's past experience of making termination payments.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2015 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid.

K. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "loans to/from other funds". These amounts are eliminated in the governmental type activities columns of the statement of net position.

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

L. Pass-Through Grants

The ESC is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the ESC has a financial or administrative role in the grants, the grants are reported as revenues and expenditures in a nonmajor governmental fund. Grants in which the ESC has no financial or administrative role and are passed-through to the local school districts in the County are reported in an agency fund.

M. 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. Leases are recognized as a liability on the fund financial statements when due.

N. 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.

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’s Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the 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’s Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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.

O. 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 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 amount restricted for other purposes represents amounts restricted for education foundation.

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

P. 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.

Q. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

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

S. 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the ESC has implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*", GASB Statement No. 69 "*Government Combinations and Disposals of Government Operations*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the ESC.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the ESC's pension plan disclosures and added required supplementary information.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	$ 2,489,973
Deferred outflows - payments subsequent to measurement date	2,143,882
Net pension liability	(42,109,003)
Restated net position at July 1, 2014	$ (37,475,148)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Other than employer contributions subsequent to the measurement date, the ESC made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

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

Nonmajor funds:	Deficit
Public school preschool	$ 11,813
Alternative schools	13,950
Miscellaneous state grants	11,340
Title III	12,132
Improving teacher quality	7,430

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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. 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;

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all ESC deposits was $(755,071). Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, none of the ESC's bank balance of $199,860 was exposed to custodial risk as discussed below.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

B. Investments

As of June 30, 2015, the ESC had the following investments and maturities:

		Investment Maturities				
Investment type	Fair Value	6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	$ 880,035	$ 200,898	$ 203,042	$ 102,466	$ -	$ 373,629
FNMA	774,881	-	-	-	-	774,881
Negotiable CDs	622,800	-	-	-	-	622,800
Money market mutual funds	12,885	12,885	-	-	-	-
Sweep account	2,157,242	2,157,242	-	-	-	-
STAR Ohio	383,515	383,515	-	-	-	-
Total	$ 4,831,358	$ 2,754,540	$ 203,042	$ 102,466	$ -	$ 1,771,310

The weighted average maturity of investments is 1.14 years.

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

Credit Risk: STAR Ohio and U.S. Government money market mutual funds carry 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 investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to invest in securities authorized by State statute.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The 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, 2015:

Investment type	Fair Value	% to Total
FHLB	$ 880,035	18.22
FNMA	774,881	16.04
Negotiable CDs	622,800	12.89
Money market mutual funds	12,885	0.27
Sweep account	2,157,242	44.65
STAR Ohio	383,515	7.93
Total	$ 4,831,358	100.00

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, 2015:

Cash and investments per note	
Carrying amount of deposits	$ (755,071)
Investments	4,831,358
Total	$ 4,076,287
Cash and investments per statement of net position	
Governmental activities	$ 3,558,932
Agency funds	517,355
Total	$ 4,076,287

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2015 consisted of the following as reported on the fund financial statements:

Transfers from general fund to:	Amount
Permanent improvement fund	$120,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated in the statement of activities.

B. Interfund balances at June 30, 2015 as reported on the fund statements, consist of the following "loans to/from other funds":

Receivable fund	Payable fund	Amount
General	Nonmajor governmental	$ 2,614

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received, which is not expected to be within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2015 are reported on the statement of net position.

C. Interfund balances at June 30, 2015 as reported on the fund statements, consist of the following "interfund loans receivable/payable":

Receivable fund	Payable fund	Amount
General	Nonmajor governmental	$ 214,806

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received, which is expected to be within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2015 are reported on the statement of net position.

D. Interfund balances at June 30, 2015 as reported on the fund statements, consist of the following "due to/from other funds":

Receivable fund	Payable fund	Amount
General	Nonmajor governmental	$ 108,483

The primary purpose of the interfund balances is to cover negative cash balances at year-end. These interfund balances will be repaid once the anticipated revenues are received, which is expected to be within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2015 are reported on the statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2015 consisted of accounts (fees and other charges for services), intergovernmental grants and fees charged to other governmental entities and accrued interest. All receivables are considered collectible in full. Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within one year.

NOTE 7 - CAPITAL ASSETS

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

	Balance 06/30/14	Additions	Disposals	Balance 06/30/15
Governmental activities:				
Capital assets, being depreciated:				
Land improvements	$ 2,482	$ -	$ -	$ 2,482
Furniture and equipment	1,547,647	6,130	-	1,553,777
Vehicles	67,140	13,804	-	80,944
Total capital assets, being depreciated	1,617,269	19,934	-	1,637,203
Less: accumulated depreciation:				
Land improvements	(2,234)	(248)	-	(2,482)
Furniture and equipment	(1,429,577)	(22,214)	-	(1,451,791)
Vehicles	(67,140)	(627)	-	(67,767)
Total accumulated depreciation	(1,498,951)	(23,089)	-	(1,522,040)
Governmental activities capital assets, net	$ 118,318	$ (3,155)	$ -	$ 115,163

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 2,828
Special	4,765
Adult/continuing	792
Support services:	
Pupil	2,052
Instructional staff	4,375
Administration	1,202
Fiscal	1,268
Business	4,479
Operations and maintenance	163
Central	251
Operation of non-instructional services	914
Total depreciation expense	$ 23,089

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2013, the ESC entered into a lease agreement for the acquisition of copiers. The lease qualifies as a capital lease for accounting purposes and, therefore, a liability has been recorded at the present value of the future minimum lease payments at inception. Capital assets consisting of equipment have been capitalized in the amount of $42,372. Accumulated depreciation at June 30, 2015 was $9,630 leaving a current book value of $32,742.

Principal and interest payments are made from the general fund and totaled $7,975 and $1,793, respectively, for fiscal year 2015. The following is a schedule of the future long-term minimum lease payments required under the lease agreement and the present value of the minimum lease payments as of June 30, 2015.

Fiscal Year Ending June 30,	Amount
2016	$ 9,768
2017	9,768
2018	4,070
Total	23,606
Less: amount representing interest	(1,915)
Present value of minimum lease payments	$ 21,691

NOTE 9 - LONG-TERM OBLIGATIONS

Long-term obligations at June 30, 2014 have been restated as described in Note 3.A. During fiscal year 2015, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding 06/30/14	Additions	Reductions	Balance Outstanding 06/30/15	Amounts Due in One Year
Capital lease obligation	$ 29,666	$ -	$ (7,975)	$ 21,691	$ 8,542
Compensated absences	692,703	225,827	(176,875)	741,655	269,808
Net pension liability	42,109,003	-	(6,645,963)	35,463,040	-
Total	$42,831,372	$ 225,827	$ (6,830,813)	$36,226,386	$ 278,350

Compensated absences will be paid from the fund from which the employee's salaries are paid which is primarily the general fund. The capital lease is paid from the general fund; see Note 8 for more detail. See Note 12 for detail on the net pension liability.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and State laws. Certified and classified 260 day employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to certified and classified employees upon termination of employment. Teachers and certificated personnel employed for less than 260 days do not earn 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 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 53 days.

B. Life Insurance

The ESC provides life insurance and accidental death and dismemberment insurance to most employees through Union Security Insurance Company, in the amount of $25,000.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

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 2015, the ESC contracted with the School Insurance Consultants for property and general liability insurance.

Professional liability is provided by the Wells Fargo Insurance Services USA, Inc. with a $3,000,000 annual aggregate/$1,000,000 single occurrence limit and $1,000 deductible. Vehicles are covered by the Wells Fargo Insurance Services USA, Inc. and hold a $500 deductible for comprehensive and collision. Automobile liability has a $1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2015, the ESC participated in the Ohio School Boards Association and Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). 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 members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual performance rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to members that can meet the GRP's selection criteria. The Benefits 1 Group provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

The ESC has contracted with the Mahoning County School Employees Insurance Consortium to provide employee medical/surgical, dental and prescription drug benefits. Monthly premiums are as follows:

	Single Coverage		Family Coverage	
	Employee Share	Board Share	Employee Share	Board Share
Life	$ -	$ 3.25	$ 1.60	$ 3.25
Dental	3.31	29.83	7.98	71.85
Medical	44.82	403.34	250.96	1,003.84
Prescription	40.16	93.70	168.66	206.15
Vision	4.89	-	14.68	-

	Employee Spouse Coverage		Employee Children Coverage	
	Employee Share	Board Share	Employee Share	Board Share
Life	N/A	N/A	N/A	N/A
Dental	6.23	56.05	5.56	50.09
Medical	188.22	752.87	152.37	609.47
Prescription	126.50	154.61	102.40	125.16
Vision	9.79	-	8.81	-

Life Insurance - $25,000
$2,500 for Children, $5,000 for Spouse

NOTE 12 - 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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The 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.

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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was $636,066 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation 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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The ESC's contractually required contribution to STRS was $1,598,531 for fiscal year 2015.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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:

	SERS	STRS	Total
Proportionate share of the net pension liability	$ 8,302,933	$ 27,160,107	$ 35,463,040
Proportion of the net pension liability	0.16405900%	0.11166218%	
Pension expense	$ 484,532	$ 1,053,557	$ 1,538,089

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 70,667	$ 261,475	$ 332,142
ESC contributions subsequent to the measurement date	636,066	1,598,531	2,234,597
Total deferred outflows of resources	$ 706,733	$1,860,006	$2,566,739
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	$1,347,589	$5,024,723	$6,372,312
Total deferred inflows of resources	$1,347,589	$5,024,723	$6,372,312

$2,234,597 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	$ (319,230)	$ (1,190,812)	$ (1,510,042)
2017	(319,230)	(1,190,812)	(1,510,042)
2018	(319,230)	(1,190,812)	(1,510,042)
2019	(319,232)	(1,190,812)	(1,510,044)
Total	$ (1,276,922)	$ (4,763,248)	$ (6,040,170)

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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	$ 11,845,817	$ 8,302,933	$ 5,323,060

Actuarial Assumptions - STRS

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and not set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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	$ 38,882,654	$ 27,160,107	$ 17,246,776

NOTE 13 - 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 www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the ESC's surcharge obligation was $84,064.

The ESC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $121,180, $91,890, and $86,501, respectively. 100 percent has been contributed for all three years.

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.

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 year 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, 2015, 2014, and 2013 were $0, $115,111, and $111,314 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 14 - CONTINGENCIES

A. Grants

The ESC received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 not currently party to any legal proceedings that will have a material, if any, effect on the financial statements.

NOTE 15 - 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:

Fund	Year-End Encumbrances
General	$ 285,456
Permanent improvement	488,954
Nonmajor governmental	543,070
Total	$ 1,317,480

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL

Mahoning Unlimited Classroom Community School (the "School") has been determined to be a discretely presented component unit. The ESC's management has determined that it is significant; therefore it has been included as part of the ESC's basic financial statements. The School issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. The report may be obtained by writing to the Treasurer of the Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 220, Youngstown, Ohio 44512-7019.

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

A. Significant Accounting Policies

Accounting Basis - The basic financial statements (BFS) of the School 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 School's significant accounting policies are described below.

***Basis of Presentation* -** Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

***Measurement Focus and Basis of Accounting* -** Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

***Deferred Outflows of Resources and Deferred Inflows of Resources* -** In addition to assets, the 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 School, deferred outflows of resources have been reported for the following two items related the School’s net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the School’s contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the statement of net position will 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 School, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the School’s net pension liability.

***Budgetary Process* -** Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School’s contract with its Sponsor. The contract between the School and its Sponsor requires the School to submit a financial plan detailing an estimated school budget for each fiscal year of the contract, or five years, whichever is less.

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

***Cash and Cash equivalents* -** Cash received by the School is maintained in a demand deposit account and is presented in the financial statements as “cash and cash equivalents”.

***Capital Assets and Depreciation* -** Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The School maintains a capitalization threshold of $1,000. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment is depreciated over ten years.

***Net Position* -** Net position represents the difference between assets and liabilities. The net position component “net investment in capital assets” consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

Intergovernmental Revenues - The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. The Ohio Department of Education conducts reviews of schools’ enrollment data and full-time equivalency (FTE) calculations. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the review after fiscal year end, the School is owed $4,688 by the Ohio Department of Education. This amount is reflected as an intergovernmental receivable on the basic financial statements.

Other grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

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

***Tax Exemption Status* -** The School is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the School qualifying as an integral part of the ESC and the Mahoning County Career and Technical Center.

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

***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 positon 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.

B. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the School has implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*", GASB Statement No. 69 "*Government Combinations and Disposals of Government Operations*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the School's pension plan disclosures, as presented in Note 16 to the financial statements, and added required supplementary information which is presented after the notes to the basic financial statements.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. Net position at July 1, 2014 has been restated as follows:

Net position as previously reported	$	430,811
Deferred outflows - payments subsequent to measurement date		1,644
Net pension liability		(35,844)
Restated net position at July 1, 2014	$	396,611

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

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

C. Deposits and Investments

At June 30, 2015, the carrying amount of all School deposits was $483,416. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, $250,000 of the School's bank balance of $484,738 was covered by the Federal Deposit Insurance Corporation (FDIC), while $234,738 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School'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 School. The School has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

D. Receivables

Receivables at June 30, 2015, consist of intergovernmental grants receivable and amounts due from other governments. All receivables are considered collectible in full and are expected to be collected within the subsequent year. The intergovernmental receivable of $76,823 consists of the following:

Intergovernmental receivables:	
IDEA Part B	$ 19,822
Title I	52,212
Improving Teacher Quality	101
Ohio Department of Education - FTE adjustment	4,688
Total	$ 76,823

E. Capital Assets

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

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Furniture and equipment	$ 341,125	$ -	$ -	$ 341,125
Less: accumulated depreciation	(286,410)	(29,929)	-	(316,339)
Capital assets, net	$ 54,715	$ (29,929)	$ -	$ 24,786

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

F. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2015, professional liability is provided through the ESC's Wells Fargo Insurance Services USA, Inc. insurance plan which has a $3,000,000 annual aggregate/$1,000,000 single occurrence limit and no deductible.

G. Purchased Services

For the fiscal year ended June 30, 2015, purchased service expenses were as follows:

Professional and technical services	$ 779,548
Property services	3,113
Travel expenses	2,154
Communications	11,540
Total	$ 796,355

H. Service Agreements

Area Cooperative Computerized Educational Service System (ACCESS) - The School entered into a one-year agreement commencing on July 1, 2014 and ending June 30, 2015, with ACCESS for internet access, electronic mail, Ohio Uniform School Accounting System (USAS), the Uniform Staff Payroll System (USPS), Educational Management Information System (EMIS), Student Information System (SIS/POISE) to include student grade reporting, attendance and scheduling and INFOhio Automated library services. Separate and apart from this agreement, the School agrees to obtain at its own expense, the additional computer and electronic equipment necessary for receipt of these services at the School's facilities. The School paid ACCESS $5,001 for services during fiscal year 2015.

Mahoning County ESC - The School has a service contract with Mahoning County ESC. This contract outlined the services that would be provided to the School, which include fiscal, payroll, administrative, and teaching services. The School's payments to the Mahoning County ESC for the period July 1, 2014 through June 30, 2015 were as follows:

Instructional	$ 301,214
Student and staff support	366,332
Administrative	92,720
Fiscal	123,734
Total	$ 884,000

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

I. Contingencies

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2015, if applicable, cannot be determined at this time.

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

The Ohio Revised Code limits the School’s obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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.

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

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

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

The School's contractually required contribution to STRS was $0 for fiscal year 2015.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School'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:

	STRS
Proportionate share of the net pension liability	$ 30,091
Proportion of the net pension liability	0.00012371%
Pension expense	$ 1,168

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

	STRS
Deferred outflows of resources	
Differences between expected and actual experience	$ 290
Total deferred outflows of resources	$ 290
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	$ 5,567

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

$0 reported as deferred outflows of resources related to pension resulting from the School's 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:

	STRS
Fiscal Year Ending June 30:	
2016	$ (1,319)
2017	(1,319)
2018	(1,319)
2019	(1,320)
Total	$ (5,277)

Actuarial Assumptions - STRS

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

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

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

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

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

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School'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 School'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%)
District's proportionate share of the net pension liability	$ 43,078	$ 30,091	$ 19,108

K. Postemployment Benefits

State Teachers Retirement System

Plan Description – the School 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.

NOTE 16 - MAHONING UNLIMITED CLASSROOM COMMUNITY SCHOOL - (Continued)

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 year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $117, and $779 respectively; 100 percent has been contributed for all three years.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING 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, 2015

	Budgeted Amounts			Variance with Final Budget
	Original	**Final**	**Actual**	**Positive (Negative)**
Revenues:				
From local sources:				
Tuition	$ 12,911,583	$ 13,372,609	$ 13,372,609	$ -
Earnings on investments	32,695	31,232	24,668	(6,564)
Charges for services.	-	570	570	-
Customer services.	5,155,535	5,886,000	6,042,082	156,082
Other local revenues	155,599	161,858	189,272	27,414
Intergovernmental - state.	1,523,795	1,579,854	1,563,055	(16,799)
Intergovernmental - federal.	52,102	347,627	222,861	(124,766)
Total revenues	19,831,309	21,379,750	21,415,117	35,367
Expenditures:				
Current:				
Instruction:				
Regular	2,822,290	4,329,111	3,966,273	362,838
Special.	5,831,717	5,780,522	5,530,721	249,801
Vocational.	66,785	66,710	65,938	772
Adult/continuing	-	13,243	13,243	-
Other.	-	92,450	92,450	-
Support services:				
Pupil.	5,501,081	5,352,317	5,285,989	66,328
Instructional staff	2,366,376	2,977,289	2,899,841	77,448
Board of education	54,954	43,824	34,943	8,881
Administration.	678,936	662,020	649,485	12,535
Fiscal	519,561	527,716	520,421	7,295
Business	499,427	574,193	565,269	8,924
Operations and maintenance.	264,725	264,531	261,809	2,722
Pupil transportation	5,790	96,712	96,712	-
Central.	686,721	755,175	712,756	42,419
Operation of non-instructional services	505,331	633,804	538,938	94,866
Total expenditures	19,803,694	22,169,617	21,234,788	934,829
Excess (deficiency) of revenues over (under) expenditures	27,615	(789,867)	180,329	970,196
Other financing sources (uses):				
Refund of prior year expenditure.	70,622	115,200	115,200	-
Refund of prior year receipt.	-	(3,283)	(3,283)	-
Transfers (out)	(128,964)	(120,000)	(120,000)	-
Advances in.	217,532	310,588	435,354	124,766
Advances (out)	(316,800)	-	(444,513)	(444,513)
Sale/loss of assets.	536	500	500	-
Total other financing sources (uses)	(157,074)	303,005	(16,742)	(319,747)
Net change in fund balance	(129,459)	(486,862)	163,587	650,449
Fund balance at beginning of year.	1,583,327	1,583,327	1,583,327	-
Prior year encumbrances appropriated	450,673	450,673	450,673	-
Fund balance at end of year	$ 1,904,541	$ 1,547,138	$ 2,197,587	$ 650,449

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULES

BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - BUDGETARY PROCESS

The ESC is not required under State statute to file budgetary information with the State Department of Education. However, the ESC 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 statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedules 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 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 statements 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 schedules represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

(a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

(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, committed or restricted fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,

(e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,

(f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	General fund
Budget basis	$ 163,587
Net adjustment for revenue accruals	(734,382)
Net adjustment for expenditure accruals	291,297
Net adjustment for other sources/uses	(102,758)
Funds budgeted elsewhere	(58,720)
Adjustment for encumbrances	315,183
GAAP basis	$ (125,793)

Certain funds that are budgeted in separate funds are considered part of the general fund on a GAAP basis. This includes the rotary fund and the special trust fund.

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REQUIRED SUPPLEMENTARY INFORMATION

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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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 TWO FISCAL YEARS

	2014	**2013**
ESC's proportion of the net pension liability	0.16405900%	0.16405900%
ESC's proportionate share of the net pension liability	$ 8,302,933	$ 9,756,062
ESC's covered-employee payroll	$ 4,767,237	$ 2,949,913
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	330.72%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

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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 TWO FISCAL YEARS

	2014	**2013**
ESC's proportion of the net pension liability	0.11166218%	0.11166218%
ESC's proportionate share of the net pension liability	$ 27,160,107	$ 32,352,941
ESC's covered-employee payroll	$ 11,408,792	$ 11,131,354
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	290.65%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2015	2014	2013	2012
Contractually required contribution	$ 636,066	$ 660,739	$ 408,268	$ 430,788
Contributions in relation to the contractually required contribution	(636,066)	(660,739)	(408,268)	(430,788)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 4,825,994	$ 4,767,237	$ 2,949,913	$ 3,202,885
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007	2006
$ 418,104	$ 429,330	$ 320,222	$ 303,039	$ 328,812	$ 514,624
(418,104)	(429,330)	(320,222)	(303,039)	(328,812)	(514,624)
$ -	$ -	$ -	$ -	$ -	$ -
$ 3,326,205	$ 3,170,827	$ 3,254,289	$ 3,085,937	$ 3,078,764	$ 4,864,121
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2015	2014	2013	2012
Contractually required contribution	$ 1,598,531	$ 1,483,143	$ 1,447,076	$ 1,383,066
Contributions in relation to the contractually required contribution	(1,598,531)	(1,483,143)	(1,447,076)	(1,383,066)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 11,418,079	$ 11,408,792	$ 11,131,354	$ 10,638,969
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

	2011	2010	2009	2008	2007	2006
	$ 1,419,562	$ 1,367,991	$ 1,314,011	$ 1,153,727	$ 1,064,485	$ 1,084,270
	(1,419,562)	(1,367,991)	(1,314,011)	(1,153,727)	(1,064,485)	(1,084,270)
	$ -	$ -	$ -	$ -	$ -	$ -
	$ 10,919,708	$ 10,523,008	$ 10,107,777	$ 8,874,823	$ 8,188,346	$ 8,340,538
	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. 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 year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through Ohio Department of Education		
Child Nutrition Cluster		
National School Lunch Program	10.555	$ 32,364
Total Child Nutrition Cluster		32,364
Total U.S. Department of Agriculture		**32,364**
U.S. DEPARTMENT OF EDUCATION		
Direct Program		
Fund for the Improvement of Education		
Teaching American History	84.215	1,159
Passed Through Ohio Department of Education		
Special Education Cluster		
Special Education Grants to States - IDEA Part B	84.027	1,476,118
Preschool Grants	84.173	131,271
Total Special Education Cluster		1,607,389
Special Education Grants to States		
State Personnel Development	84.323	810,857
Improving Teacher Quality Grants		
Title II Part A	84.367	204,398
English Language Acquisition Grants		
TItle III	84.365	21,722
ARRA - Race to the Top		
Race-to-the-Top Incentive Grants, Recovery Act	84.395	548,038
Race-to-the-Top Early Learning Challenge, Recovery Act	84.412	33,000
Total ARRA - Race to the Top		581,038
Total Pass-through Ohio Department of Education		**3,225,404**
Passed Through Ohio Department of Health		
Help Me Grow		
Early Intervention Program	84.181	496,448
Total Pass-through Ohio Department of Health		**496,448**
Passed Through Ohio Rehabilitation Services Commission		
Rehabilitation Services		
Vocational Rehabilitation Grants to States	84.126	440,052
Total Pass-through Ohio Rehabilitation Services Commission		440,052
Total U.S. Department of Education		**4,163,063**
Total Federal Awards Expenditures		**$ 4,195,427**

The accompanying notes are an integral part of this schedule.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – 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 C – MATCHING REQUIREMENTS

Certain Federal programs require the ESC to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The ESC has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE D – REPORTING

The ESC's Schedule does not include the federal financial assistance for Mahoning Unlimited Classroom, a component unit of the ESC.

NOTE E – SUBRECIPIENTS

The ESC passes certain federal awards received from the Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note 1 describes, the ESC reports expenditures of federal awards to subrecipients when paid in cash.

As a subrecipient, the ESC has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these sub-awards as authorized by laws, regulations, and the provisions of contracts or agreements, and that the subrecipients achieve the award's performance goals. The amounts passed through to subrecipients were $1,476,118 for the Special Education Grants to States – IDEA Part B program and $810,857 for the State Personnel Development program..

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

Mahoning County Educational Service Center
Mahoning County
100 DeBartolo Place Suite 220
Youngstown, Ohio 44512

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center, Mahoning County, (the ESC) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated January 21, 2016. We noted the ESC adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

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

Compliance and Other Matters

As part of reasonably assuring whether the 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*.

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.

Charles E. Harris & Associates, Inc.
January 21, 2016

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

Mahoning County Educational Service Center
Mahoning County
100 DeBartolo Place Suite 220
Youngstown, Ohio 44512

To the Governing Board:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the ESC's compliance for each of the ESC's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 programs. However, our audit does not provide a legal determination of the ESC's compliance.

The ESC's basic financial statements include the operations of the Mahoning County Unlimited Classroom, which received $80,903 in federal awards which is not included in the ESC's Schedule of Federal Awards Expenditures for the year ended June 30, 2015.

Our audit of Federal Awards, described below, did not include the operations of the Mahoning County Unlimited Classroom because the component unit expended less than $500,000 for the year ended June 30, 2015 and thus was not required to have an audit of the Federal Awards in accordance with OMB Circular A-133.

Opinion on Each Major Federal Program

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

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 OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the 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 would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.
January 21, 2016

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Vocational Rehabilitation - CFDA #84.126; Special Education Cluster - CFDA #84.027 & 84.173, Race to the Top – CFDA #84.395 & 84.412; State Personnel Development – CFDA #84.323
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

FINDING NUMBER	**FINDING SUMMARY**	**FULLY CORRECTED?**	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2014-001	Mispostings and Misclassifications Resulting in Financial Statement Adjustments	Yes	Finding No Longer Valid

Dave Yost • Auditor of State

MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 5, 2016