

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2016***

JAMES CARMAN, TREASURER



Dave Yost • Auditor of State

Governing Board
Stark County Educational Service Center
2100 38th Street NW
Canton, OH 44709

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

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

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

Dave Yost
Auditor of State

May 18, 2017

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**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709-2300

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with 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 Stark County Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Stark County Educational Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted to opine on the Stark County Educational Service Center's basic financial statements taken as a whole.

The Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) for the General and Straight "A" funds present additional analysis and are not a required part of the basic financial statements.

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

The schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling 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 December 29, 2016, on our consideration of the Stark County Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Stark County Educational Service Center's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 29, 2016

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

The management's discussion and analysis of the Stark County Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the ESC's 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 2016 are as follows:

- The ESC's net position of governmental activities increased \$3,121,590 which represents a 11.47% increase from 2015.
- General revenues accounted for \$1,766,955 in revenue or 6.39% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$25,881,542 or 93.61% of total revenues of \$27,648,497.
- The ESC had \$24,526,907 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services and sales, grants and contributions.
- The ESC has two major governmental fund, the General fund and Straight "A" fund. The General fund had \$23,792,619 in revenues and \$20,972,200 in expenditures. During fiscal 2016, the General fund's fund balance increased \$2,820,419 from \$3,338,705 to \$6,159,124.
- The Straight "A" fund had \$317,272 in revenues and \$367,874 in expenditures. During fiscal 2016, the Straight "A" fund's fund balance decreased \$50,602 from a deficit of \$66 to a deficit of \$50,668.

Using these Basic Financial Statements (BFS)

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

The statement of net position and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the General fund and Straight "A" fund are the most significant funds, and 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 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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 increased or decreased services desired by school districts, state budget cuts, 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, and other operations.

The ESC's statement of net position and statement of activities can be found on pages 14-15 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 11. 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 Straight "A" 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 that 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 16-19 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, Stark/Portage Area Computer Consortium ("SPARCC"), the Stark County Schools Council of Government and the Stark County Family Council. This activity is presented as fiduciary funds. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net position on page 20. 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 21-50 of this report.

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

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 52-58 of this report.

The ESC as a Whole

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 for June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Assets</u>		
Current and other assets	\$ 10,804,297	\$ 8,464,038
Capital assets, net	<u>1,352,061</u>	<u>1,403,962</u>
Total assets	<u>12,156,358</u>	<u>9,868,000</u>
<u>Deferred outflows of resources</u>		
Pensions	<u>5,968,671</u>	<u>2,340,051</u>
Total deferred outflows of resources	<u>5,968,671</u>	<u>2,340,051</u>
<u>Liabilities</u>		
Current liabilities	3,104,740	3,284,989
Long-term liabilities:		
Due within one year	152,597	153,644
Due in more than one year:		
Net pension liability	35,813,718	29,604,245
Other amounts	<u>1,067,559</u>	<u>1,073,729</u>
Total liabilities	<u>40,138,614</u>	<u>34,116,607</u>
<u>Deferred inflows of resources</u>		
Pensions	<u>2,075,724</u>	<u>5,302,343</u>
Total deferred inflows of resources	<u>2,075,724</u>	<u>5,302,343</u>
<u>Net position</u>		
Net investment in capital assets	1,198,004	1,207,421
Restricted	759,289	546,292
Unrestricted (deficit)	<u>(26,046,602)</u>	<u>(28,964,612)</u>
Total net position	<u>\$ (24,089,309)</u>	<u>\$ (27,210,899)</u>

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

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 ESC's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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.

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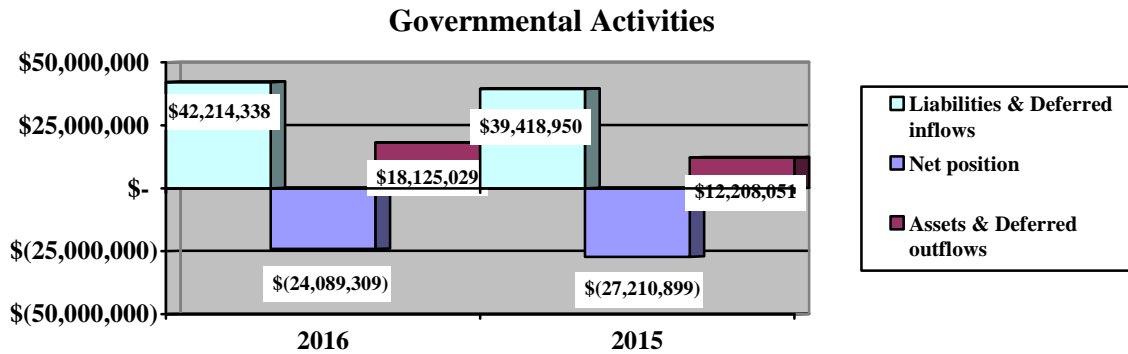
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the ESC's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$24,089,309.

At year-end, capital assets represented 11.12% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The ESC's net investment in capital assets at June 30, 2016 was \$1,198,004. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net position, \$759,289, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of \$26,046,602. The deficit balance in unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The graph below illustrates the ESC's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2016 and 2015.



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

The table below shows the changes in net position for governmental activities between 2016 and 2015.

	Change in Net Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 21,526,002	\$ 20,581,253
Operating grants and contributions	4,355,540	3,742,796
General revenues:		
Grants and entitlements	1,733,259	1,848,609
Investment earnings	30,946	22,577
Other	<u>2,750</u>	<u>10,425</u>
Total revenues	<u>27,648,497</u>	<u>26,205,660</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	266,442	154,122
Special	8,183,416	7,758,116
Support services:		
Pupil	4,881,759	4,333,429
Instructional staff	4,322,050	3,966,698
Board of education	23,864	29,061
Administration	4,191,929	4,356,843
Fiscal	632,955	688,446
Business	811,643	816,862
Operations and maintenance	655,819	532,498
Pupil transportation	28,890	39,276
Central	87,442	238,133
Operations of non-instructional services		
Food service operations	90,587	95,639
Other non-instructional services	289,882	176,859
Extracurricular	27,137	-
Interest and fiscal charges	<u>33,092</u>	<u>40,259</u>
Total expenses	<u>24,526,907</u>	<u>23,226,241</u>
Change in net position	3,121,590	2,979,419
Net position at beginning of year	<u>(27,210,899)</u>	<u>(30,190,318)</u>
Net position at end of year	<u>\$ (24,089,309)</u>	<u>\$ (27,210,899)</u>

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Governmental Activities

Net position of the ESC's governmental activities increased \$3,121,590. Total governmental expenses of \$24,526,907 were offset by program revenues of \$25,881,542 and general revenues of \$1,766,955. Program revenues supported all of the total governmental expenses.

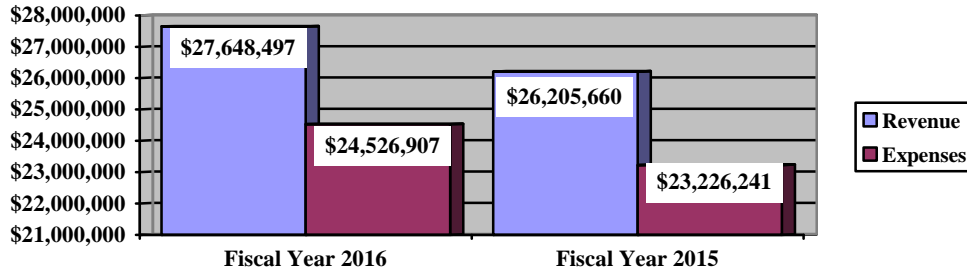
Governmental activities revenue increased approximately \$1.44 million. This is primarily due to the increase in charges for services and sales. The ESC has had to increase charges to school districts in order to counteract the decreasing amount of unrestricted grants and entitlements received from the State. Operating grants and contributions increased approximately \$613,000 over fiscal year 2015. This is due to the ESC obtaining new grants in order to expand services to the school districts it serves.

The ESC's expenses increased approximately \$1.3 million. This is due to the ESC providing more services to its member school districts.

The primary sources of revenue for governmental activities are derived from charges for services and sales. This revenue source represents 77.86% of total governmental revenue.

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

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

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

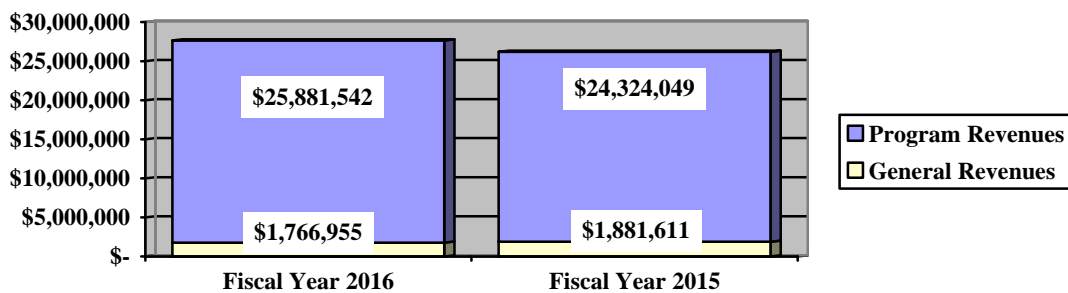
Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 266,442	\$ (54,964)	\$ 154,122	\$ (3,445)
Special	8,183,416	(425,301)	7,758,116	(610,745)
Support services:				
Pupil	4,881,759	(326,706)	4,333,429	(229,580)
Instructional staff	4,322,050	(271,829)	3,966,698	(399,157)
Board of education	23,864	23,864	29,061	29,061
Administration	4,191,929	(435,971)	4,356,843	(224,994)
Fiscal	632,955	(16,081)	688,446	(3,722)
Business	811,643	(160,794)	816,862	(109,155)
Operations and maintenance	655,819	146,785	532,498	89,649
Pupil transportation	28,890	(6,739)	39,276	39,276
Central	87,442	87,442	238,133	238,133
Operations of non-instructional services				
Food service operations	90,587	74,221	95,639	77,955
Other non-instructional services	289,882	(48,791)	176,859	(31,343)
Extracurricular	27,137	27,137	-	-
Interest and fiscal charges	33,092	33,092	40,259	40,259
Total	<u>\$ 24,526,907</u>	<u>\$ (1,354,635)</u>	<u>\$ 23,226,241</u>	<u>\$ (1,097,808)</u>

For all governmental activities, program revenue support is 105.52%. The primary support of the ESC is charges for services and sales.

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

Governmental Activities - General and Program Revenues



**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$6,228,379, which is greater than last year's balance of \$3,450,755. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance (deficit) <u>June 30, 2016</u>	Fund Balance (deficit) <u>June 30, 2015</u>	Increase <u>(Decrease)</u>
Major Fund:			
General	\$ 6,159,124	\$ 3,338,705	\$ 2,820,419
Straight "A"	(50,668)	(66)	(50,602)
Other governmental	<u>119,923</u>	<u>112,116</u>	<u>7,807</u>
 Total	 <u>\$ 6,228,379</u>	 <u>\$ 3,450,755</u>	 <u>\$ 2,777,624</u>

General Fund

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 10,708,691	\$ 9,769,542	9.61 %
Services provided to other entities	11,080,516	10,031,039	10.46 %
Earnings on investments	31,668	21,305	48.64 %
Intergovernmental	1,790,611	1,902,035	(5.86) %
Other revenues	<u>181,133</u>	<u>489,573</u>	(63.00) %
 Total	 <u>\$ 23,792,619</u>	 <u>\$ 22,213,494</u>	 7.11 %
<u>Expenditures</u>			
Instruction	\$ 7,934,375	\$ 7,474,535	6.15 %
Support services	12,858,807	12,676,960	1.43 %
Food service	75,597	78,120	(3.23) %
Extracurricular	27,845	-	100.00 %
Debt service	<u>75,576</u>	<u>75,576</u>	- %
 Total	 <u>\$ 20,972,200</u>	 <u>\$ 20,305,191</u>	 3.28 %

The general fund's revenues increased approximately \$1.58 million from the prior fiscal year. This increase is mainly due to the increase in tuition and services provided to other entities. Since funding from the State continues to be cut, the ESC has had to increase the revenue it receives for tuition and services provided to other entities. This has been a combination of increasing the amounts charged to districts but also providing more services to districts. The corresponding increase in the expenditures can be attributed to the ESC providing more services.

Straight "A" Fund

The Straight "A" fund had \$317,272 in revenues and \$367,874 in expenditures. During fiscal 2016, the Straight "A" fund's fund balance decreased \$50,602 from a deficit of \$66 to a deficit of \$50,668.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Capital Assets

At the end of fiscal 2016, the ESC had \$1,352,061 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal 2016 balances compared to 2015.

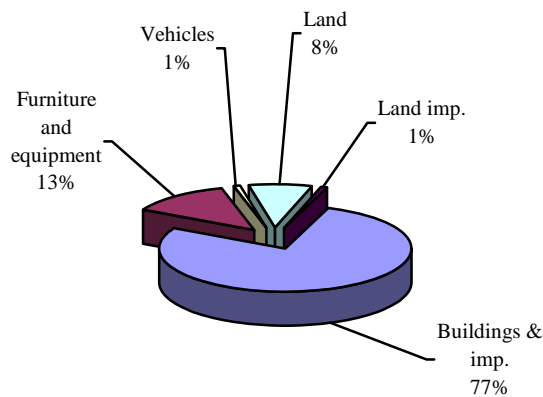
**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 111,059	\$ 111,059
Land improvements	9,990	12,540
Buildings and improvements	1,044,411	1,037,709
Furniture and equipment	174,601	223,939
Vehicles	12,000	18,715
Total	<u>\$1,352,061</u>	<u>\$ 1,403,962</u>

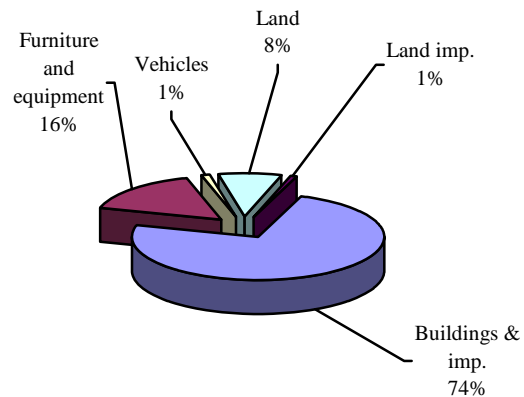
Total additions to capital assets for fiscal 2016 were \$52,732. A total of \$104,606 in depreciation expense was recognized for fiscal 2016. Disposals of capital assets totaled \$27 (net of accumulated depreciation) for fiscal 2016.

The graphs below present the ESC's capital assets for fiscal 2016 and fiscal 2015. See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

**Capital Assets - Governmental Activities
2016**



**Capital Assets - Governmental Activities
2015**



Debt Administration

At June 30, 2016, the ESC had \$154,057 in capital leases outstanding. Of this total, \$51,107 is due within one year and \$102,950 is due in greater than one year. The following table summarizes the debt outstanding.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Outstanding Debt, at Year End

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
Capital lease	\$ <u>154,057</u>	\$ <u>196,541</u>

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The ESC, along with the majority of the school districts in Ohio, continues to be challenged to provide a high level of services in a cost efficient method. As the preceding information shows, the ESC relies heavily on contracts with local, city, and joint vocational school districts in Stark County, as well as State Foundation revenue and grants. The need for additional services from local and city school districts will provide the ESC with the necessary funds to meet its operating expenses in fiscal year 2016 and for the immediate future. However, the ESC needs to make sure it provides a high level service in a cost efficient manor in order to retain the districts it serves. This point is especially important as the State continues to move ESC funding closer to a 100% fee for service model.

In fiscal year 2012, every ESC in Ohio was subject to a reduction of approximately 10% of the annual funding provided by the State. This represented an approximate reduction of \$225,000. Near the end of fiscal year 2015, the state legislature once again reduced the per student funding for ESC's by 12% for fiscal year 2016, but then increased funding by 9% for fiscal year 2017. The increase in 2017 came partially from a funding carve out of \$2 per student for ESC's that could demonstrate they are high performing. In its long term planning, the ESC fully expects there will come a time when it no longer receives any direct state funding and it is structuring its fiscal operations to be prepared for that time.

Declining enrollment also remains a concern of the ESC. State funding is based on the average daily membership of the school districts served. From 2007 to 2012, when the ESC only served Stark County districts, the ESC saw its average daily membership decline from 63,039 to 60,316. In 2013, membership increased by over 4,000 due to some districts outside of Stark County joining the ESC. However, from 2013 to 2015, total students served still dropped by 2,447. In 2016, the ESC did see an increase of over 700 students served, but the overall expectation is for enrollment to continue to decline.

The needs of districts are always changing. Therefore, the ESC is constantly reviewing its programming to make sure it is providing the services districts need and adjusting how they are provided to make sure and maintain a financially solvent operation.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens, school districts, 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 James Carman, Treasurer, Stark County ESC, 2100 38th Street N.W., Canton, Ohio 44709-2300 or by calling (330) 492-8136.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 7,190,278
Receivables:	
Accounts.	2,023,179
Accrued interest	4,571
Intergovernmental	1,580,230
Prepayments	6,039
Capital assets:	
Nondepreciable capital assets	111,059
Depreciable capital assets, net.	1,241,002
Capital assets, net.	1,352,061
Total assets.	12,156,358
 Deferred outflows of resources:	
Pension - STRS	5,093,471
Pension - SERS	875,200
Total deferred outflows of resources.	5,968,671
 Liabilities:	
Accounts payable.	110,291
Accrued wages and benefits	2,129,096
Intergovernmental payable	462,978
Pension and postemployment benefits payable	402,375
Long-term liabilities:	
Due within one year.	152,597
Due in more than one year:	
Net pension liability	35,813,718
Other amounts due in more than one year	1,067,559
Total liabilities	40,138,614
 Deferred inflows of resources:	
Pension - STRS.	1,651,066
Pension - SERS.	424,658
Total deferred inflows of resources	2,075,724
 Net position:	
Net investment in capital assets	1,198,004
Restricted for:	
Locally funded programs	73,024
State funded programs.	485,792
Federally funded programs	173,471
Food service operations.	27,002
Unrestricted (deficit)	(26,046,602)
Total net position.	\$ (24,089,309)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 266,442	\$ 20,206	\$ 301,200	\$ 54,964
Special	8,183,416	8,083,797	524,920	425,301
Support services:				
Pupil	4,881,759	4,810,740	397,725	326,706
Instructional staff	4,322,050	2,508,576	2,085,303	271,829
Board of education	23,864	-	-	(23,864)
Administration	4,191,929	4,399,530	228,370	435,971
Fiscal	632,955	586,086	62,950	16,081
Business	811,643	972,437	-	160,794
Operations and maintenance	655,819	30,240	478,794	(146,785)
Pupil transportation	28,890	35,629	-	6,739
Central	87,442	-	-	(87,442)
Operation of non-instructional services:				
Food service operations	90,587	8,761	7,605	(74,221)
Other non-instructional services	289,882	70,000	268,673	48,791
Extracurricular activities	27,137	-	-	(27,137)
Interest and fiscal charges	33,092	-	-	(33,092)
Total governmental activities	\$ 24,526,907	\$ 21,526,002	\$ 4,355,540	1,354,635
General revenues:				
Grants and entitlements not restricted				
to specific programs				1,733,259
Investment earnings				30,946
Miscellaneous				2,750
Total general revenues				1,766,955
Change in net position				3,121,590
Net position at beginning of year				(27,210,899)
Net position at end of year				\$ (24,089,309)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Straight "A"</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 7,052,534	\$ -	\$ 137,744	\$ 7,190,278
Receivables:				
Accounts	2,023,179	-	-	2,023,179
Accrued interest	4,571	-	-	4,571
Interfund loans	61,529	-	-	61,529
Intergovernmental	19,327	612,637	948,266	1,580,230
Prepayments	6,039	-	-	6,039
Due from other funds	452,824	-	-	452,824
Total assets	<u>\$ 9,620,003</u>	<u>\$ 612,637</u>	<u>\$ 1,086,010</u>	<u>\$ 11,318,650</u>
Liabilities:				
Accounts payable	\$ 41,986	\$ 43,855	\$ 24,450	\$ 110,291
Accrued wages and benefits	1,976,563	-	152,533	2,129,096
Compensated absences payable	32,707	-	-	32,707
Intergovernmental payable	435,106	6,245	21,627	462,978
Pension and postemployment benefits payable	317,136	-	85,239	402,375
Interfund loans payable	-	-	61,529	61,529
Due to other funds	-	112,642	340,182	452,824
Total liabilities	<u>2,803,498</u>	<u>162,742</u>	<u>685,560</u>	<u>3,651,800</u>
Deferred inflows of resources:				
Intergovernmental revenue not available	-	500,563	280,527	781,090
Accrued interest not available	1,561	-	-	1,561
Charges for services revenue not available	655,820	-	-	655,820
Total deferred inflows of resources	<u>657,381</u>	<u>500,563</u>	<u>280,527</u>	<u>1,438,471</u>
Fund balances:				
Nonspendable:				
Prepays	6,039	-	-	6,039
Restricted:				
Food service operations	-	-	27,002	27,002
Special education	-	-	17,024	17,024
Other purposes	-	-	119,766	119,766
Assigned:				
Student instruction	187,155	-	-	187,155
Student and staff support	222,833	-	-	222,833
Subsequent year's appropriations	2,485,976	-	-	2,485,976
Other purposes	1,764	-	-	1,764
Unassigned (deficit)	<u>3,255,357</u>	<u>(50,668)</u>	<u>(43,869)</u>	<u>3,160,820</u>
Total fund balances (deficit)	<u>6,159,124</u>	<u>(50,668)</u>	<u>119,923</u>	<u>6,228,379</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 9,620,003</u>	<u>\$ 612,637</u>	<u>\$ 1,086,010</u>	<u>\$ 11,318,650</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Total governmental fund balances		\$	6,228,379
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,352,061
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Accounts receivable	\$	655,820	
Accrued interest receivable		1,561	
Intergovernmental receivable		781,090	
Total		781,090	1,438,471
The net pension liability is not due and payable in the current period; therefore, liability and related deferred outflows/inflows are not reported in governmental funds.			
Deferred outflows - pension		5,968,671	
Deferred inflows - pension		(2,075,724)	
Net pension liability		(35,813,718)	
Total		(35,813,718)	(31,920,771)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		(154,057)	
Compensated absences		(1,033,392)	
Total		(1,187,449)	(1,187,449)
Net position of governmental activities		\$	(24,089,309)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

	<u>General</u>	<u>Straight "A"</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 10,708,691	\$ -	\$ -	\$ 10,708,691
Contributions from private sources	22,393	-	449,393	471,786
Earnings on investments	31,668	-	-	31,668
Charges for services	609	-	8,152	8,761
Rental income	30,240	-	-	30,240
Services provided to other entities	11,080,516	-	90,206	11,170,722
Other local revenues	127,891	-	1,000	128,891
Intergovernmental - state	1,737,201	317,272	848,102	2,902,575
Intergovernmental - federal	53,410	-	2,376,463	2,429,873
Total revenues	<u>23,792,619</u>	<u>317,272</u>	<u>3,773,316</u>	<u>27,883,207</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,390	80,651	180,897	267,938
Special	7,927,985	-	462,192	8,390,177
Support services:				
Pupil	4,613,788	-	407,831	5,021,619
Instructional staff	2,382,957	189,773	1,795,985	4,368,715
Board of education	23,864	-	-	23,864
Administration	4,132,388	97,450	66,797	4,296,635
Fiscal	563,001	-	68,851	631,852
Business	791,205	-	-	791,205
Operations and maintenance	240,531	-	469,896	710,427
Pupil transportation	29,674	-	-	29,674
Central	81,399	-	-	81,399
Operation of non-instructional services:				
Food service operations	75,597	-	17,532	93,129
Other non-instructional services	-	-	295,528	295,528
Extracurricular activities	27,845	-	-	27,845
Debt service:				
Principal retirement	42,484	-	-	42,484
Interest and fiscal charges	33,092	-	-	33,092
Total expenditures	<u>20,972,200</u>	<u>367,874</u>	<u>3,765,509</u>	<u>25,105,583</u>
Net change in fund balances	2,820,419	(50,602)	7,807	2,777,624
Fund balances (deficit)				
at beginning of year	3,338,705	(66)	112,116	3,450,755
Fund balances (deficit) at end of year	<u>\$ 6,159,124</u>	<u>\$ (50,668)</u>	<u>\$ 119,923</u>	<u>\$ 6,228,379</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	2,777,624
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 52,732	
Current year depreciation	(104,606)	
Total	(51,874)	(51,874)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(27)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition	(444,393)	
Earnings on investments	(722)	
Services provided to other entities	(96,563)	
Other local revenue	25,711	
Intergovernmental	286,315	
Total	(229,652)	(229,652)
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.		
		42,484
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		2,286,320
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,640,554)
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.		
		(62,731)
Change in net position of governmental activities	\$	<u><u>3,121,590</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Agency
Assets:	
Equity in pooled cash and cash investments	\$ 122,553,591
Receivables:	
Accounts	6,116,341
Accrued interest	164,963
Intergovernmental.	106,576
Total assets.	\$ 128,941,471
Liabilities:	
Accounts payable.	\$ 79,658
Accrued wages and benefits	201,087
Pension obligation payable.	41,310
Intergovernmental payable	127,515,054
Due to students.	36,510
Unearned revenue.	1,067,852
Total liabilities	\$ 128,941,471

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ESC

The Stark County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio. The ESC supplies supervisory, administrative and other needed services to participating school districts.

The Governing Board consists of 5 members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 354 non-certified employees and 234 certified employees to provide services to students 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.

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 no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

The ESC is fiscal agent for the Stark County Family Council (the "Council"). The ESC is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the ESC. The ESC is fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the ESC's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "equity in pooled cash and investments."

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

JOINTLY GOVERNED ORGANIZATIONS

Stark-Portage Area Computer Consortium ("SPARCC") - SPARCC is a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each district's superintendent serves as a representative on the Board, which consists of approximately 30 member districts. However, SPARCC is primarily governed by a six-member Executive Board, which is made up of three representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

Stark County Schools Council of Governments ("COG") - The COG is a group purchasing pool. The COG is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the COG. All COG revenues are generated from charges for services.

In the case of SPARCC and the COG, the ESC serves as fiscal agent and custodian but is not accountable; therefore, the operations of SPARCC and the COG have been excluded from the ESC's financial statements, but the funds held on behalf of SPARCC and the COG are included as agency funds.

PUBLIC ENTITY RISK POOLS

Stark County Schools Council of Governments Health Benefit Plan

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Health Benefits Plan is provided through the COG. The COG is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All Health Benefits Plan revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

The intent of the pool is to achieve a reduced rate for the ESC and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to CompManagement, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

Straight "A" fund - The Straight "A" fund is used to account for grant revenue awarded to the ESC from the Ohio Department of Education (ODE) for teacher training.

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for the COG, SPARCC and other organizations and individuals.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

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, accrued 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. See Note 11 for deferred outflows of resources related to the ESC's net pension liability.

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

See Note 11 for deferred inflows of resources related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

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

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

E. Budgets

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

In fiscal year 2004, the ESC requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the ESC is discretionary, the ESC continues 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 object level for the General fund and at the fund level for all other funds. Budgetary information for the General fund and Straight "A" fund has been presented as supplementary information to the basic financial statements.

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds, including fiduciary 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.

During fiscal year 2016, investments were limited to federal agency securities, commercial paper, U.S. Treasury notes, repurchase agreements, U.S. Government money market mutual funds and investments in the 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. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State of Ohio to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. STAR Ohio maintains a stable net asset value (NAV) per share by using the amortized cost method of portfolio valuation. For fiscal year ended June 30, 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to Public Fund Administrators, the co-administrator for STAR Ohio, 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Earnings on investments revenue credited to the general fund during fiscal 2016 totaled \$31,668, which includes \$9,276 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.

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

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

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

G. 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 \$2,000. 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.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	30 years
Building and improvements	50 years
Furniture and equipment	5 - 10 years
Vehicles	5 - 10 years

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences," a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contracts and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from the fiduciary funds are reported on the fiduciary fund 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 and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability in the fund financial statements when due.

J. Fund Balance

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

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

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 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.

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

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

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 Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

K. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. 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 ESC applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

M. Estimates

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

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

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

N. 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.

O. Interfund Balances

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

P. 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.

Q. Fair Value

The ESC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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 2016.

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

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

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

B. Deficit Fund Balances

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

<u>Major fund</u>	<u>Deficit</u>
Straight "A" fund	\$ 50,668
 <u>Nonmajor funds</u>	
Children's trust fund	9,349
Public school preschool	25,314
Title III	3,892
IDEA handicapped preschool	5,314

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from negative cash balances (allowable by ORC 3315.20) and adjustments for accrued liabilities.

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2016, the carrying amount of all ESC deposits was \$9,737,835, exclusive of the \$37,000,000 in repurchase agreements included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2016, \$13,479,316 of the ESC's bank balance of \$13,729,316 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

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

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FFCB	\$ 12,711,244	\$ -	\$ 1,001,010	\$ 3,665,776	\$ 1,774,149	\$ 6,270,309
FHLB	16,490,704	2,001,560	806,112	2,109,236	2,664,377	8,909,419
FHLMC	16,760,451	-	1,001,730	1,507,605	3,805,311	10,445,805
FNMA	21,249,153	2,500,000	1,000,190	1,002,745	4,153,144	12,593,074
U.S. Treasury notes	2,781,388	-	2,003,210	-	-	778,178
STAR Ohio	387,638	387,638	-	-	-	-
Repurchase agreements	37,000,000	37,000,000	-	-	-	-
Commercial paper	5,931,212	1,951,012	3,980,200	-	-	-
U.S. Government money market funds	6,694,244	6,694,244	-	-	-	-
	<u>\$ 120,006,034</u>	<u>\$ 50,534,454</u>	<u>\$ 9,792,452</u>	<u>\$ 8,285,362</u>	<u>\$ 12,396,981</u>	<u>\$ 38,996,785</u>

The weighted average maturity of investments is 1.34 years.

The ESC's investments in federal agency securities, federal agency securities that underlie the repurchase agreements, commercial paper, U.S. Government money market funds and U.S. Treasury notes are valued using quoted market prices (Level 1 inputs). The ESC's investments in STAR Ohio are valued at the daily redemption value as reported by the underlying fund (Level 1 inputs).

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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: The ESC's investments in federal agency securities, U.S. Treasury notes and the federal agency securities that underlie the repurchase agreements were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the U.S. Government money market funds an AAAM money market rating. 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 commercial paper were rated A-1+ and P-1 by Standard & Poor's and Moody's Investor Services, respectively. The ESC's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

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, commercial paper and U.S. Treasury notes 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. Of the ESC's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the ESC. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. 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, 2016:

<u>Investment type</u>	<u>Fair value</u>	<u>% of total</u>
FFCB	\$ 12,711,244	10.59
FHLB	16,490,704	13.74
FHLMC	16,760,451	13.97
FNMA	21,249,153	17.71
U.S. Treasury notes	2,781,388	2.32
STAR Ohio	387,638	0.32
Repurchase agreements	37,000,000	30.83
Commercial paper	5,931,212	4.94
U.S. Government money market funds	6,694,244	5.58
	<u>\$ 120,006,034</u>	<u>100.00</u>

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 9,737,835
Investments	<u>120,006,034</u>
Total	<u>\$ 129,743,869</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 7,190,278
Agency funds	<u>122,553,591</u>
Total	<u>\$ 129,743,869</u>

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

NOTE 5 - INTERFUND TRANSACTIONS

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

Receivable fund	Payable fund	Amount
General fund	Nonmajor governmental funds	<u>\$ 61,529</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

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

Due to	Due from	Amount
General fund	Straight "A" fund	\$ 112,642
General fund	Nonmajor governmental funds	<u>340,182</u>
		<u>\$ 452,824</u>

The purpose of the amount due to/from other funds is to cover negative cash balances in the Straight "A" fund and the nonmajor governmental funds. The interfund balance will be repaid once the anticipated revenues are received and is expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts (billings to school districts for user charged services and tuition), intergovernmental grants and accrued interest. All receivables are considered collectible in full. A summary of the principal items of receivables reported in the statement of net position follows:

Governmental activities:	
Accounts	\$ 2,023,179
Intergovernmental	1,580,230
Accrued interest	<u>4,571</u>
Total	<u>\$ 3,607,980</u>

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

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NOTE 7 - CAPITAL ASSETS

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

	Balance <u>06/30/15</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/16</u>
Governmental activities:				
Land	\$ 111,059	\$ -	\$ -	\$ 111,059
Total capital assets, not being depreciated	<u>111,059</u>	<u>-</u>	<u>-</u>	<u>111,059</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	76,515	-	-	76,515
Buildings and improvements	1,823,249	43,926	-	1,867,175
Furniture and equipment	948,834	8,806	(66,279)	891,361
Vehicles	117,246	-	(24,635)	92,611
Total capital assets, being depreciated	<u>2,965,844</u>	<u>52,732</u>	<u>(90,914)</u>	<u>2,927,662</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(63,975)	(2,550)	-	(66,525)
Buildings and improvements	(785,540)	(37,224)	-	(822,764)
Furniture and equipment	(724,895)	(58,117)	66,252	(716,760)
Vehicles	(98,531)	(6,715)	24,635	(80,611)
Total accumulated depreciation	<u>(1,672,941)</u>	<u>(104,606)</u>	<u>90,887</u>	<u>(1,686,660)</u>
Governmental activities capital assets, net	<u>\$ 1,403,962</u>	<u>\$ (51,874)</u>	<u>\$ (27)</u>	<u>\$ 1,352,061</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 22,065
<u>Support services:</u>	
Pupil	569
Instructional staff	23,696
Administration	8,648
Fiscal	1,871
Business	39,439
Operations and maintenance	1,892
Central	<u>6,426</u>
Total depreciation expense	<u>\$ 104,606</u>

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal year 2014, the ESC entered into a capitalized lease for copier equipment. The lease agreement meets the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary schedule.

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NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

Capital assets consisting of office equipment have been capitalized in the amount of \$247,267. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2016 was \$116,059, leaving a current book value of \$131,208. Principal payments in fiscal year 2016 totaled \$42,484 paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 75,576
2018	75,576
2019	<u>44,086</u>
Total	195,238
Less: amount representing interest	<u>(41,181)</u>
Present value of minimum lease payments	<u>\$ 154,057</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/16</u>	<u>Due in</u>
					<u>One Year</u>
Governmental activities:					
Capital lease obligation	\$ 196,541	\$ -	\$ (42,484)	\$ 154,057	\$ 51,107
Net pension liability	29,604,245	6,209,473	-	35,813,718	-
Compensated absences	<u>1,030,832</u>	<u>146,427</u>	<u>(111,160)</u>	<u>1,066,099</u>	<u>101,490</u>
Total	<u>\$ 30,831,618</u>	<u>\$ 6,355,900</u>	<u>\$ (153,644)</u>	<u>\$ 37,033,874</u>	<u>\$ 152,597</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the ESC, is primarily the general fund.

See Note 8 for a description of the ESC's capital lease obligation.

See Note 11 for a description of the ESC's net pension liability.

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

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Shared Risk Pool

The ESC is a participant in the Stark County Schools Council of Governments (“COG”) for the purpose of obtaining benefits at a reduced premium for both health care and workers’ compensation.

The ESC’s insurance program for health care, through the COG, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the COG for monthly premiums, monthly stop-loss premiums and administrative charges. The ESC is fiscal agent for the COG. The Treasurer of the ESC pays Mutual Health Services Company and Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium and the administrative charges.

C. Worker’s Compensation

The ESC also participates in a program with the COG to obtain workers’ compensation coverage. This program is administered by CompManagement, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the Ohio Bureau of Workers’ Compensation are based on this calculation. Total savings are then determined and each participant’s performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the Program.

NOTE 11 - 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.

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NOTE 11 - 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.

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NOTE 11 - 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, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was \$741,090 for fiscal year 2016. Of this amount, \$88,129 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - 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, 2016, plan members were required to contribute 13 percent of their annual covered salary. The ESC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was \$1,545,230 for fiscal year 2016. Of this amount, \$210,075 is reported as pension and postemployment benefits payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 8,129,331	\$ 27,684,387	\$ 35,813,718
Proportion of the net pension liability	0.14246746%	0.10017119%	
Pension expense	\$ 148,504	\$ 1,492,050	\$ 1,640,554

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 134,110	\$ 1,244,368	\$ 1,378,478
Changes in proportionate share	-	2,303,873	2,303,873
ESC contributions subsequent to the measurement date	<u>741,090</u>	<u>1,545,230</u>	<u>2,286,320</u>
Total deferred outflows of resources	<u>\$ 875,200</u>	<u>\$ 5,093,471</u>	<u>\$ 5,968,671</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 327,670	\$ 1,651,066	\$ 1,978,736
Changes in proportionate share	<u>96,988</u>	<u>-</u>	<u>96,988</u>
Total deferred inflows of resources	<u>\$ 424,658</u>	<u>\$ 1,651,066</u>	<u>\$ 2,075,724</u>

\$2,286,320 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (147,378)	\$ 234,082	\$ 86,704
2018	(147,378)	234,082	86,704
2019	(147,379)	234,083	86,704
2020	<u>151,587</u>	<u>1,194,928</u>	<u>1,346,515</u>
Total	<u>\$ (290,548)</u>	<u>\$ 1,897,175</u>	<u>\$ 1,606,627</u>

Actuarial Assumptions - SERS

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Sensitivity of the 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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
ESC's proportionate share of the net pension liability	\$ 11,272,461	\$ 8,129,331	\$ 5,482,557

Actuarial Assumptions - STRS

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the 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:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 38,455,702	\$ 27,684,387	\$ 18,575,634

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the ESC's surcharge obligation was \$104,198.

The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$104,198, \$130,832, and \$54,827, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$94,035, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the ESC.

B. Litigation

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

NOTE 14 - RELATED PARTY TRANSACTIONS

During fiscal year 2016, the ESC received fees in the amount of \$1,139,234 (including \$449,105 in accounts receivable) for fiscal agent services provided to the Stark County Schools Council of Governments.

The ESC also serves as fiscal agent for Stark Portage Area Computer Consortium (SPARCC). In lieu of fiscal agent fees, the ESC receives computer services from SPARCC at no charge.

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

NOTE 15 - STATE AND LOCAL FUNDING

A. State Funding

State funding for Education Service Centers (ESCs) is provided to support basic operations and statutorily mandated services. It consists of two major categories - unit funding for gifted and preschool handicapped units and a per pupil allocation.

Unit funding - Funding for an approved unit is based on a 1) a salary allowance for the teacher, psychologist, etc. in charge of the unit, 2) a non-salary unit allowance for preschool classroom units, related services, and a gifted allowance, and 3) a supplemental unit allowance for classroom units, other preschool special education units, and for gifted units.

Per pupil base funding - Ohio Revised Code 3317.11(F) provides for the State to pay ESCs \$37 per pupil or \$40.52 per pupil for multi-county ESCs to help support their basic operations and provision of services to school districts, community schools, chartered non-public schools and county and State run juvenile detention facilities. The Average Daily Membership (ADM) is calculated as the K-12 ADM of member districts minus the E-school ADM minus the ADM of community schools that are sponsored by another ESC plus the ADM of community schools that are sponsored by the ESC in question plus the handicapped ADM.

B. Local Funding

Approximately two-thirds of the funding for ESCs comes from the member districts they serve through deductions or transfers that the Ohio Department of Education (ODE) makes out of State foundation to the ESCs. A number of calculations comprise this deduction.

Special education extended service - Since the State stopped paying for extended service, special education extended service has become a local responsibility. It is paid at the daily rate on the minimum salary schedule, plus a fringe allowance up to a maximum number of days.

Supervisory allowance - One of the major services provided by ESCs since their inception has been supervisory services for local districts. Each city or exempted village school district that enters into an agreement for services from an ESC under Section 3313.843 of the Ohio Revised Code also is considered to be provided supervisory services by the ESC. Supervisory services are financed annually through supervisory units, the cost of which is determined by a formula in statute.

\$6.50 per pupil deduction - The ODE annually deducts from each local and client school district of each ESC, pursuant to Division (E) of Section 3317.023 of the Ohio Revised Code, and pays to the ESC an amount equal to \$6.50 times the school district's total student count. The Board of Education of any local or client school may agree to pay an amount in excess of \$6.50 per student in total student count. If a majority of Boards of Education of local school districts within an ESCs territory approve an amount in excess of \$6.50 per student, the department shall deduct the approved excess per student amount from all of the local school districts with the ESCs territory and pay the excess amount to the ESC. ESCs must notify ODE with a signed resolution of agreement of any per pupil amounts in excess of \$6.50 so proper deductions can be made.

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

NOTE 15 - STATE AND LOCAL FUNDING - (Continued)

Service contracts - Districts may set up service contracts with ESCs to pay for services above and beyond those covered by the above described funding sources. To receive payment pursuant to such contracts, or agreements, an ESC must furnish to the State a copy of the contract or written statement that clearly indicates the payments owed and is signed by the superintendent or treasurer of the responsible school district. These deductions are included in the ESC deduction of the foundation payment form. Instead of having contract amounts deducted by the State, ESCs may bill the districts directly. ESCs can also enter into agreements under Section 3313.844 of the Ohio Revised Code to provide services to community schools.

NOTE 16 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 408,238
Straight "A"	136,469
Other governmental	<u>247,521</u>
Total	<u>\$ 792,228</u>

REQUIRED SUPPLEMENTARY INFORMATION

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.14246746%	0.15193390%	0.15193390%
ESC's proportionate share of the net pension liability	\$ 8,129,331	\$ 7,689,288	\$ 9,035,021
ESC's covered-employee payroll	\$ 4,555,857	\$ 4,414,899	\$ 4,182,023
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	178.44%	174.17%	216.04%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

**STARK 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
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.10017119%	0.09009802%	0.09009802%
ESC's proportionate share of the net pension liability	\$ 27,684,387	\$ 21,914,957	\$ 26,104,953
ESC's covered-employee payroll	\$ 10,451,186	\$ 9,205,531	\$ 8,524,377
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	238.06%	306.24%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 741,090	\$ 600,462	\$ 611,905	\$ 578,792
Contributions in relation to the contractually required contribution	<u>(741,090)</u>	<u>(600,462)</u>	<u>(611,905)</u>	<u>(578,792)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 5,293,500	\$ 4,555,857	\$ 4,414,899	\$ 4,182,023
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 571,146	\$ 553,957	\$ 551,157	\$ 382,967	\$ 377,499	\$ 382,367
<u>(571,146)</u>	<u>(553,957)</u>	<u>(551,157)</u>	<u>(382,967)</u>	<u>(377,499)</u>	<u>(382,367)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,246,439	\$ 4,406,977	\$ 4,070,583	\$ 3,891,941	\$ 3,844,185	\$ 3,580,215
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,545,230	\$ 1,463,166	\$ 1,196,719	\$ 1,108,169
Contributions in relation to the contractually required contribution	<u>(1,545,230)</u>	<u>(1,463,166)</u>	<u>(1,196,719)</u>	<u>(1,108,169)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 11,037,357	\$ 10,451,186	\$ 9,205,531	\$ 8,524,377
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,037,061	\$ 1,019,505	\$ 989,529	\$ 948,907	\$ 931,180	\$ 810,878
<u>(1,037,061)</u>	<u>(1,019,505)</u>	<u>(989,529)</u>	<u>(948,907)</u>	<u>(931,180)</u>	<u>(810,878)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,977,392	\$ 7,842,346	\$ 7,611,762	\$ 7,299,285	\$ 7,162,923	\$ 6,237,523
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 years 2014-2016.

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

SUPPLEMENTARY INFORMATION

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 9,932,589	\$ 10,857,667	\$ 10,528,019	\$ (329,648)
Contributions from private sources	13,879	15,172	15,643	471
Earnings on investments	20,126	22,000	23,025	1,025
Charges for services	557	609	609	-
Services provided to other entities	9,512,250	10,398,179	10,829,871	431,692
Rental income	56,896	62,195	61,183	(1,012)
Other local revenues	264,353	288,974	405,268	116,294
Intergovernmental - state	1,492,484	1,631,487	1,797,454	165,967
Intergovernmental - federal	42,538	46,500	45,870	(630)
Total revenue	<u>21,335,672</u>	<u>23,322,783</u>	<u>23,706,942</u>	<u>384,159</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,985	9,396	9,390	6
Special	8,365,368	8,748,308	8,387,770	360,538
Support services:				
Pupil	4,736,070	4,952,872	4,676,562	276,310
Instructional staff	2,800,729	2,928,937	2,536,717	392,220
Board of education	33,422	34,952	27,393	7,559
Administration	4,460,978	4,665,187	4,242,215	422,972
Fiscal	687,506	718,978	621,774	97,204
Business	948,819	992,253	900,644	91,609
Operations and maintenance	287,042	300,182	260,911	39,271
Pupil transportation	38,917	40,699	31,680	9,019
Central	265,858	278,028	155,428	122,600
Food service operations	74,854	78,281	75,792	2,489
Extracurricular activities	24,805	25,940	24,924	1,016
Total expenditures	<u>22,733,353</u>	<u>23,774,013</u>	<u>21,951,200</u>	<u>1,822,813</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,397,681)</u>	<u>(451,230)</u>	<u>1,755,742</u>	<u>2,206,972</u>
Other financing sources (uses):				
Refund of prior year expenditures	16,423	17,953	19,017	1,064
Advances in	917,950	1,003,444	719,000	(284,444)
Advances (out)	<u>(717,170)</u>	<u>(750,000)</u>	<u>(277,085)</u>	<u>472,915</u>
Total other financing sources (uses)	<u>217,203</u>	<u>271,397</u>	<u>460,932</u>	<u>189,535</u>
Net change in fund balance	(1,180,478)	(179,833)	2,216,674	2,396,507
Fund balance at beginning of year	3,802,894	3,802,894	3,802,894	-
Prior year encumbrances appropriated	756,437	756,437	756,437	-
Fund balance at end of year	<u>\$ 3,378,853</u>	<u>\$ 4,379,498</u>	<u>\$ 6,776,005</u>	<u>\$ 2,396,507</u>

SEE ACCOMPANYING BUDGETARY NOTES

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	\$ 700,000	\$ 999,242	\$ 210,594	\$ (788,648)
Total revenue	<u>700,000</u>	<u>999,242</u>	<u>210,594</u>	<u>(788,648)</u>
Expenditures:				
Current:				
Instruction:				
Regular	58,808	102,618	102,618	-
Support services:				
Instructional staff	378,574	660,595	292,139	368,456
Administration	125,179	218,431	97,450	120,981
Fiscal	7,933	13,842	13,842	-
Total expenditures	<u>570,494</u>	<u>995,486</u>	<u>506,049</u>	<u>489,437</u>
Excess (deficiency) of revenues over (under) expenditures	<u>129,506</u>	<u>3,756</u>	<u>(295,455)</u>	<u>(299,211)</u>
Other financing uses:				
Advances (out)	(99,670)	(173,920)	(173,920)	-
Total other financing uses	<u>(99,670)</u>	<u>(173,920)</u>	<u>(173,920)</u>	<u>-</u>
Net change in fund balance	29,836	(170,164)	(469,375)	(299,211)
Fund balance at beginning of year	-	-	-	-
Prior year encumbrances appropriated . .	170,164	170,164	170,164	-
Fund balance (deficit) at end of year . . .	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ (299,211)</u>	<u>\$ (299,211)</u>

SEE ACCOMPANYING BUDGETARY NOTES

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's 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 statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The ESC's 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 object level for the general fund and at the fund level for all other 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 statements 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 as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) 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 fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (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).

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>	<u>Straight "A"</u>
Budget basis	\$ 2,216,674	\$ (469,375)
Net adjustment for revenue accruals	83,927	106,678
Net adjustment for expenditure accruals	267,305	(48,394)
Net adjustment for other sources/uses	(460,932)	173,920
Funds budgeted elsewhere**	1,750	-
Adjustment for encumbrances	<u>711,695</u>	<u>186,569</u>
GAAP basis	<u>\$ 2,820,419</u>	<u>\$ (50,602)</u>

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

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

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS THROUGH / ENTITY NUMBER	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
(C) National School Lunch Program	10.555	2016	\$ 7,505
(C) Child and Adult Care Food Program	10.558	2016	46,312
DIRECT			
Farm to School Grant Program	10.575	2016	37,491
Total U.S. Department of Agriculture			91,308
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Special Education Grants Cluster:			
(D) Special Education_Grants to States	84.027	2015	264,964
(D) Special Education_Grants to States	84.027	2016	1,027,159
Total Special Education_Grants to States			1,292,123
(D) Special Education_Preschool Grants	84.173	2015	5,888
(D) Special Education_Preschool Grants	84.173	2016	135,872
Total Special Education_Preschool Grants			141,760
Total Special Education Grants Cluster			1,433,883
Special Education_Grants for Infants and Families with Disabilities	84.181	2015	12,027
Special Education_Grants for Infants and Families with Disabilities	84.181	2016	352,488
Total Special Education_Grants for Infants and Families with Disabilities			364,515
Special Education - State Personnel Development	84.323	2015	21,916
Special Education - State Personnel Development	84.323	2016	90,294
Total Special Education - State Personnel Development			112,210
English Language Acquisition Grants	84.365	2015	33,040
English Language Acquisition Grants	84.365	2016	89,677
Total English Language Acquisition Grants			122,717
Race to the Top - Early Learning Challenge	84.412	2015	18,203
Race to the Top - Early Learning Challenge	84.412	2016	38,133
Total Race to the Top - Early Learning Challenge			56,336
DIRECT			
Fund for the Improvement of Education	84.215	2016	30
Total U.S. Department of Education			2,089,691
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF HEALTH			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	07650011MH0315	80,083
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	07650011MH0416	198,513
Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program			278,596
Promoting Safe and Stable Families	93.556	N/A	47,345
PASSED THROUGH THE STARK COUNTY COMMISSIONERS			
Temporary Assistance for Needy Families	93.558	009-256	316,490
Temporary Assistance for Needy Families	93.558	N/A	104,223
Total Temporary Assistance for Needy Families			420,713
PASSED THROUGH MORNING STAR FINANCIAL SERVICES			
Money Follows the Person Rebalancing Demonstration	93.791	N/A	50,646
Total U.S. Department of Health and Human Services			797,300
Total Federal Financial Assistance			\$ 2,978,299

Notes to the Schedule of Expenditures of Federal Awards:

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709-2300

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stark County Educational Service Center, Stark County, Ohio as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Stark County Educational Service Center's basic financial statements and have issued our report thereon dated December 29, 2016.

Internal Control Over Financial Reporting

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

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

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

Governing Board
Stark County Educational Service Center

Compliance and Other Matters

As part of reasonably assuring whether the Stark County Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 Stark County Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Stark County Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
December 29, 2016



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709-2300

To the Governing Board:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

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

Governing Board
Stark County Educational Service Center

Report on Internal Control Over Compliance

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

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

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

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



Julian & Grube, Inc.
December 29, 2016

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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Dave Yost • Auditor of State

STARK COUNTY EDUCATIONAL SERVICE CENTER

STARK 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 30, 2017