EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

Dave Yost • Auditor of State

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY
JUNE 30, 2017

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TUSCARAWAS COUNTY
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 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 Educational Service Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, on our consideration of the 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 Educational Service Center's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

February 14, 2018

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The discussion and analysis of the East Central Ohio Educational Service Center's (Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2017 are as follows:

- Net position of governmental activities decreased $2,047,279**.**

- General revenues accounted for $987,231 in revenue or approximately 7 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for $14,149,539 or approximately 93 percent of total revenues of $15,136,770.

- Total assets of governmental activities decreased $1,152,710, primarily due to decreases in cash and cash equivalents, intergovernmental receivables for grants, and capital assets.

- The Educational Service Center had $17,184,049 in expenses related to governmental activities; only $14,149,539 of these expenses were offset by program specific charges for services, operating grants and contributions, capital grants and contributions. General revenues of $987,231 were not adequate to provide for these programs.

- Total governmental funds had $15,138,335 in revenue and $15,216,889 in expenditures. Overall the net change in total governmental fund balances was a decrease of $78,554.

Using this Annual Financial Report

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look as the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the large number of funds used by the Educational Service Center to provide programs and activities for students, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, all of the Educational Service Center's activities are considered to be Governmental Activities including instruction, support services, operation and maintenance of plant and pupil transportation.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 11. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund, and the 21st Century Grant Special Revenue Fund.

Governmental Funds

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

The Educational Service Center as a Whole

Recall that the Statement of Net Position provides the perspective of Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2017 compared to 2016.

Table 1
Net Position
Governmental Activities

	2017	2016	Change
Assets			
Current and Other Assets	$3,065,845	$4,088,499	($1,022,654)
Capital Assets	1,452,025	1,582,081	(130,056)
Total Assets	4,517,870	5,670,580	(1,152,710)
Deferred Outflow of Resources			
Pension	5,682,465	3,247,110	2,435,355
Liabilities			
Current and Other Liabilities	837,200	1,229,285	(392,085)
Long-Term Liabilities:			
Due Within One Year	97,720	130,551	(32,831)
Due in More Than One Year:			
Net Pension Liability	24,243,890	19,342,224	4,901,666
Other Amounts	72,827	120,591	(47,764)
Total Liabilities	25,251,637	20,822,651	4,428,986
Deferred Inflows of Resources			
Pension	80,181	1,179,243	(1,099,062)
Net Position (Deficit)			
Net Investment in Capital Assets	1,444,605	1,506,213	(61,608)
Restricted	65,070	859,998	(794,928)
Unrestricted	(16,641,158)	(15,450,415)	(1,190,743)
Total Net Position (Deficit)	($15,131,483)	($13,084,204)	($2,047,279)

The net pension liability is the largest single liability reported by the Educational Service Center at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center'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.

GASB 68 requires the net pension liability to equal the Educational Service Center'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 Educational Service Center 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 Educational Service Center'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.

In total, assets decreased $1,152,710. Current and other assets decreased $1,022,654, primarily due to decreases in cash and cash equivalents, as well as a decrease in intergovernmental receivables for grants due to the Straight A Teacher Credentialing grant concluding at the end of fiscal year 2017. Capital assets decreased $130,056 primarily due to annual depreciation.

In total, liabilities increased $4,428,986. Current and other liabilities decreased $392,085 primarily due to a decrease in accrued wages and benefits due to a June 30, 2017 pay date resulting in one less accrued payroll period at fiscal year-end as opposed to the prior year. The increase in long-term liabilities in the amount of $4,821,071 was due primarily to an increase in net pension liability, which represents the Educational Service Center's proportionate share of the appropriate pension systems' unfunded benefits. The increase in net pension liability was offset by final payments on two of the Educational Service Center's capital leases in fiscal year 2017, and a slight decrease in compensated absences.

Table 2 shows the changes in net assets for the fiscal year 2017 compared to fiscal year 2016.

Table 2
Changes in Net Position
Governmental Activities

	2017	2016	Change
Revenues			
Program Revenues			
Charges for Services	$12,483,417	$10,895,636	$1,587,781
Operating Grants and Contributions	1,561,122	3,024,456	(1,463,334)
Capital Grants and Contributions	105,000	0	105,000
Total Program Revenues	14,149,539	13,920,092	229,447
General Revenues			
Grants and Entitlements not Restricted to Specific Programs	978,123	880,523	97,600
Others	9,108	4,385	4,723
Total General Revenues	987,231	884,908	102,323
Total Revenues	**15,136,770**	**14,805,000**	**331,770**
Program Expenses			
Instruction			
Regular	4,680,598	2,101,463	2,579,135
Special	3,080,756	2,490,883	589,873
Vocational	77,278	61,048	16,230
Student Intervention Services	546,539	970,909	(424,370)
Support Services			
Pupil	3,156,595	2,785,788	370,807
Instructional Staff	2,323,426	2,350,274	(26,848)
Board of Education	40,653	32,601	8,052
Administration	1,382,066	1,179,824	202,242
Fiscal	413,840	333,772	80,068
Business	766,042	424,597	341,445
Operation and Maintenance of Plant	217,960	124,211	93,749
Pupil Transportation	66,404	38,999	27,405
Central	354,070	378,503	(24,433)
Operation of Non-Instructional Services	1,880	6,874	(4,994)
Food Service Operation	74,141	62,069	12,072
Interest and Fiscal Charges	1,801	10,782	(8,981)
Total Expenses	**17,184,049**	**13,352,597**	**3,831,452**
Change in Net Position	(2,047,279)	1,452,403	(3,499,682)
Net Position (Deficit) Beginning of Year	(13,084,204)	(14,426,958)	1,342,754
Restatement (See Note 3)	0	(109,649)	109,649
Net Position (Deficit) End of Year	**($15,131,483)**	**($13,084,204)**	**($2,047,279)**

The primary sources of revenue for the Educational Service Center are derived from charges for services provided to contracting School Districts within its boundaries. Peak FuelEducation Program costs charged to 27 partnering school districts was primarily responsible for the increase in charges for services revenue; which represents approximately 82 percent of total governmental revenue. Decreases in Straight A Teacher Credentialing and 21st Century grant revenues were primarily responsible for the decrease in operating grants and contributions, which represent approximately 10 percent of total governmental revenues.

Program expenses of the Educational Service Center represent the costs of providing services. For fiscal year 2017, grant contravention expense related to the Straight A Teacher Credentialing grant, as well as pension expense related to net pension liability were also responsible, in part, for the increase in overall program expenses.

The Statement of Activities shows the cost of program services and the charges for services, operating grants and contributions, capital grants and contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2017 compared to fiscal year 2016. In other words, it identifies the cost of those services supported by unrestricted entitlements.

Table 3
Governmental Activities

	Total Cost of Services		**Net Cost of Services**	
	2017	**2016**	**2017**	**2016**
Instruction:				
Regular	$4,680,598	$2,101,463	$82,138	$776,228
Special	3,080,756	2,490,883	(1,353,668)	(952,316)
Vocational	77,278	61,048	(5,703)	61,048
Student Intervention Services	546,539	970,909	(57,155)	506,124
Support Services:				
Pupil	3,156,595	2,785,788	1,714,528	(980,652)
Instructional Staff	2,323,426	2,350,274	1,105,054	(840,629)
Board of Education	40,653	32,601	21,999	32,601
Administration	1,382,066	1,179,824	677,523	(320,943)
Fiscal	413,840	333,772	208,256	333,772
Business	766,042	424,597	347,059	303,717
Operation and Maintenance of Plant	217,960	124,211	112,701	124,211
Pupil Transportation	66,404	38,999	366	50
Central	354,070	378,503	184,327	378,503
Operation of Non-Instructional Service	1,880	6,874	10	9
Food Service Operations	74,141	62,069	(4,726)	0
Interest and Fiscal Charges	1,801	10,782	1,801	10,782
Total Expenses	$17,184,049	$13,352,597	$3,034,510	($567,495)

The Educational Service Center relies on program revenues to support its operations, which were not sufficient in fiscal year 2017.

The Educational Service Center Funds

Information about the Educational Service Center's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting**.** The Educational Service Center reports two major funds, the General Fund and the 21st Century Grant Special Revenue Fund. The General Fund had $13,354,623 in revenues and $13,349,462 in expenditures. Overall the General Fund's balance increased $5,161. The 21st Century Special Revenue Grant Fund had $1,399,998 in revenues and $1,407,763 in expenditures. Overall, the 21st Century Grant Special Revenue Fund balance decreased $7,765.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the Educational Service Center had $1,452,025 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 9 for more detailed information of the Educational Service Center capital assets.

Debt

At June 30, 2017, the Educational Service Center had $7,420 in outstanding capital lease obligations. Of this total, $3,783 is due within one year. See Note 15 for more information on the Educational Service Center's long-term obligations, including compensated absences and net pension liability.

Economic Factors

Overall, the Educational Service Center remains financially stable. As the preceding information shows, the Educational Service Center relies heavily on service contracts with Local, City and Exempted Village School Districts, and other entities within the four county areas. The future of the Educational Service Center is dependent upon maintaining stability in a very difficult budget environment. These challenges include legislative reductions to State funding for Educational Service Centers. In anticipation of these challenges, the Education Service Center will need to continue to provide its services to school districts and other community entities in the most cost effective manner available. One such initiative is a Shared Services Collaboration with other education service centers and local governments. The Education Service Center will continue to identify possible sources of revenue generating activities, such as expanding Distance Learning Services to school districts across the State, and throughout the United States. The Educational Service Center's system of financial management and internal controls is well regarded, and all of its financial abilities will be needed to meet the financial challenges in the future.

Contacting the Educational Service Center's Financial Management

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

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East Central Ohio Educational Service Center

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$1,854,053
Intergovernmental Receivable	1,175,991
Accounts Receivable	15,803
Prepaid Items	19,998
Non-Depreciable Capital Assets	22,360
Depreciable Capital Assets, Net	1,429,665
Total Assets	4,517,870
Deferred Outflows of Resources	
Pension	5,682,465
Liabilities	
Accounts Payable	24,455
Accrued Wages and Benefits Payable	680,966
Intergovernmental Payable	131,779
Long-Term Liabilities:	
Due Within One Year	97,720
Due In More Than One Year:	
Net Pension Liability (See Note 11)	24,243,890
Other Amounts	72,827
Total Liabilities	25,251,637
Deferred Inflows of Resources	
Pension	80,181
Net Position (Deficit)	
Net Investment in Capital Assets	1,444,605
Restricted for:	
State Funded Programs	14,452
Federally Funded Programs	50,618
Unrestricted	(16,641,158)
Total Net Position (Deficit)	($15,131,483)

See accompanying notes to the basic financial statements

East Central Ohio Educatonal Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	$4,680,598	$3,667,967	$930,493	$0	($82,138)
Special	3,080,756	4,409,857	24,567	0	1,353,668
Vocational	77,278	82,981	0	0	5,703
Student Intervention Services	546,539	603,694	0	0	57,155
Support Services:					
Pupil	3,156,595	1,441,373	694	0	(1,714,528)
Instructional Staff	2,323,426	969,788	248,584	0	(1,105,054)
Board of Education	40,653	18,654	0	0	(21,999)
Administration	1,382,066	582,947	16,596	105,000	(677,523)
Fiscal	413,840	205,584	0	0	(208,256)
Business	766,042	225,570	193,413	0	(347,059)
Operation and Maintenance of Plant	217,960	105,259	0	0	(112,701)
Pupil Transportation	66,404	0	66,038	0	(366)
Central	354,070	169,743	0	0	(184,327)
Operation of Non-Instructional Services	1,880	0	1,870	0	(10)
Food Service Operation	74,141	0	78,867	0	4,726
Interest and Fiscal Charges	1,801	0	0	0	(1,801)
Total Primary Government	$17,184,049	$12,483,417	$1,561,122	$105,000	(3,034,510)

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	978,123
Investment Earnings	9,108
Total General Revenues	987,231
Change in Net Position	(2,047,279)
Net Position Beginning of Year - Restated (Note 3)	(13,084,204)
Net Position End of Year	($15,131,483)

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2017

	General	21st Century Grants	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$1,854,053	$0	$0	$1,854,053
Receivables:				
Accounts	15,803	0	0	15,803
Intergovernmental	732,993	341,362	101,636	1,175,991
Interfund	374,957	0	0	374,957
Prepaid Items	19,998	0	0	19,998
Total Assets	$2,997,804	$341,362	$101,636	$3,440,802
Liabilities				
Accounts Payable	$17,776	$0	$6,679	$24,455
Accrued Wages and Benefits	674,518	0	6,448	680,966
Intergovernmental Payable	130,648	0	1,131	131,779
Interfund Payable	0	341,362	33,595	374,957
Total Liabilities	822,942	341,362	47,853	1,212,157
Deferred Inflows of Resources				
Unavailable Revenue	628,373	0	25,760	654,133
Fund Balances				
Nonspendable:				
Prepaid Items	19,998	0	0	19,998
Restricted for:				
Federal Programs	0	0	50,618	50,618
Assigned to:				
Student Instruction	102,946	0	0	102,946
Student and Staff Support	27,108	0	0	27,108
Facilities Acquisition and Construction	2,700	0	0	2,700
Unassigned (Deficit)	1,393,737	0	(22,595)	1,371,142
Total Fund Balances	1,546,489	0	28,023	1,574,512
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$2,997,804	$341,362	$101,636	$3,440,802

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center

Reconciliation of Total Governmental Fund Balances

to Net Position of Governmental Activities

June 30, 2017

Total Governmental Fund Balances		$1,574,512
Amounts reported for governmental activities in the Statement of Net Position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,452,025
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:		
Grants	28,181	
Charges for Services	520,952	
Contributions and Donations	105,000	
Total		654,133
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	7,420	
Compensated Absences	163,127	
Total		(170,547)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	5,682,465	
Net Pension Liability	(24,243,890)	
Deferred Inflows - Pension	(80,181)	
Total		(18,641,606)
Net Position of Governmental Activities		($15,131,483)

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2017

	General	21st Century Grants	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	975,702	1,399,998	383,714	2,759,414
Interest	9,108	0	0	9,108
Tuition and Fees	5,187,923	0	0	5,187,923
Charges for Services	7,181,890	0	0	7,181,890
Total Revenues	13,354,623	1,399,998	383,714	15,138,335
Expenditures				
Current:				
Instruction:				
Regular	2,859,763	892,120	213,867	3,965,750
Special	2,617,542	0	105,629	2,723,171
Vocational	64,618	0	0	64,618
Student Intervention Services	470,100	0	0	470,100
Support Services:				
Pupil	2,772,939	0	2,985	2,775,924
Instructional Staff	1,850,793	243,127	17,394	2,111,314
Board of Education	35,596	0	0	35,596
Administration	1,125,004	11,835	36,718	1,173,557
Fiscal	382,717	0	0	382,717
Business	429,567	192,397	8,930	630,894
Operation and Maintenance of Plant	200,859	0	0	200,859
Pupil Transportation	0	66,404	0	66,404
Central	324,211	0	0	324,211
Operation of Non-Instructional Services	0	1,880	0	1,880
Food Service Operations	0	0	74,141	74,141
Capital Outlay	145,504	0	0	145,504
Debt Service:				
Principal Retirement	68,448	0	0	68,448
Interest and Fiscal Charges	1,801	0	0	1,801
Total Expenditures	13,349,462	1,407,763	459,664	15,216,889
Net Change in Fund Balances	5,161	(7,765)	(75,950)	(78,554)
Fund Balances Beginning of Year	1,541,328	7,765	103,973	1,653,066
Fund Balances End of Year	$1,546,489	$0	$28,023	$1,574,512

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds		($78,554)
Amounts reported for governmental activities in the Statement of Activities are different because		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital Asset Additions	34,970	
Current Year Depreciation	(152,089)	
Total		(117,119)
Capital Assets removed from the capital asset account on the statement of net assets results in a gain or loss on disposal of capital assets on the statement of activities		(12,937)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds:		
Intergovernmental	(220,169)	
Contributuons and Donations	105,000	
Charges for Services	113,604	
Total		(1,565)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Capital Leases		68,448
Some expenses reported in the Statement of Activities, such as compensated absences and vacation benefits payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences Payable		12,147
Grant funding previously recognized is expensed on the Statement of Activities in the year of contravention of grant guidelines.		(550,450)
Contractually required contributions are reported as expenditures in the governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.		1,153,296
Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the Statement of Activities.		(2,520,545)
Changes in Net Position of Governmental Activities		($2,047,279)

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds

June 30, 2017

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	$86,785
Intergovermental Receivable	44,118
Total Assets	$130,903
Liabilities	
Intergovernmental Payable	$130,903
Total Liabilities	$130,903

See accompanying notes to the basic financial statements

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NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

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

The Educational Service Center operates under an elected seven-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures and approves all financial activities. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts. The Educational Service Center is staffed by 88 non-certified employees and 156 certified employees to provide services to approximately 21,689 students in 16 districts throughout Tuscarawas, Carroll, Harrison and Belmont counties.

A. Reporting Entity

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the East Central Ohio Educational Service Center, this includes general operations and student related activities.

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency Information Technology Center Regional Council of Governments (OME-RESA) which is defined as a jointly governed organization. The Educational Service Center also participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), the Ohio School Plan (OSP), and the Ohio School Benefits Cooperative (OSBC), which are defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the primary government. No separate governmental units meet the criteria for inclusion as a component unit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

The Statement of Net Position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. The Educational Service Center's major funds are presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

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

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

General Fund - The General Fund accounts for and reports all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any

purpose, provided it is expended and transferred according to the general laws of Ohio.
21st Century Grants Fund – A fund used to account for 21st Century Grant monies received through the Ohio Department of Education from the federal government

Other governmental funds of the Educational Service Center 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 Fund Types - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Educational Service Center has no enterprise funds.

Fiduciary Fund Type - 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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for various resources held for other organizations and individuals including funds held on behalf of the State Support Team to pay individuals at an office in New Philadelphia.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operation of the Educational Service Center are included on the Statement of Net Position. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net position.

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

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. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a 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 Educational Service Center, available means expected to be received within 60 days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the revenue is available. 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 Educational Service Center must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide Statement of Net Position for pension. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 15. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources include pension, and unavailable revenue. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and governmental fund financial statements. 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 Educational Service Center, unavailable revenue includes tuition and fees, investment earnings, charges for services, miscellaneous revenue, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. (See Note 11)

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

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

E. 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.

F. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds, excluding the agency funds, are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2017, the Educational Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, 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 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 or by policy of the Governing Board. Investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2017 amounted to $9,108, none of which was assigned from other funds.

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

G. Receivables and Payables

Receivables and payables on the Educational Service Center's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of instructional materials held for resale. The Educational Service Center had no instructional materials held for resale at June 30, 2017.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center's capitalization threshold is $25,000 for land and building improvements, and $5,000 for other assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The Educational Service Center does not possess infrastructure.

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

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	5-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	5-20 years

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after ten years of service with one of the State retirement systems.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “matured compensated absences payable” in the funds from which these payments will be paid. The Educational Service Center had no matured compensated absences payable at June 30, 2017.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and net pension liability that are 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.

M. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements.

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Fund Balance

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

> ***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.
>
> ***Restricted:*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
>
> ***Committed:*** The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Governing Board. 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 the use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board, or the authority of the Treasurer.

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

O. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for local, federal, and state grants restricted for specified purposes.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

A. Changes in Accounting Principals

For fiscal year 2017, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 80, "Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14," and GASB Statement No. 82,"Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the Educational Service Center's 2017 financial statements; however, there were no material abatements.

GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. These changes were incorporated in the Educational Service Center's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Educational Service Center's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

The Educational Service Center also implemented GASB's *Implementation Guide No. 2016-1.* These changes were incorporated in the Educational Service Center's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

B. Restatement of Net Position

The Educational Service Center revised its capital assets policy, which increased the capitalization threshold to $25,000 for land and building improvements, and $5,000 for other assets, and undertook a re-evaluation of its capital assets. The restatement includes the restatement of long-term obligations for the removal of a capital lease associated with disposed assets. The result of the restatement and its effect on net position at December 31, 2017 is presented in the table as follows.

	Governmental Activities
Total Net Position June 30, 2016	($12,974,555)
Capital Asset Restatement	(159,605)
Long-Term Obligation Restatement	49,956
Total Net Position Restated June 30, 2016	($13,084,204)

NOTE 4 - FUND DEFICITS

The following special revenue funds had deficit fund balances as of June 30, 2017:

Miscellaneous State Grants Fund	$11,287
Straight A Grant Fund	11,308
Total Fund Deficits	$22,595

The deficits were the result of the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands on the treasury. Active monies must be maintained either as cash in the Educational Service Center 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 the Governing Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAROhio); and

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met;

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, $1,097,304 of the Educational Service Center's bank balance of $1,347,304 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial Institutions can elect to participate in the OPCS and will collateralize at 102 percent or a rate set by Treasurer of State. Financial institutions opting not to participate in OPCS will collateralize utilizing the specific pledge method at 105 percent.

Investments

As of June 30, 2017, the Educational Service Center only had an investment of $863,420 in STAR Ohio, the State Treasurer's Investment Pool. This investment has an average maturity of 45.5 days.

Interest Rate Risk. The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State Statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk. STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center 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.

NOTE 6 - STATE FUNDING

The Educational Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local school districts based on each school's total student count.
The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of $27.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to $6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

NOTE 7 - INTERFUND ACTIVITY

Interfund balances at June 30, 2017, consist of the following interfund receivable and payable

	Interfund Receivable
Interfund Payable	General Fund
21st Century Grant	$341,362
Non-Major Governmental Funds	33,595
Total	$374,957

The loans made to the 21st Century Grant and Non-Major Governmental Funds were used to cover actual cash deficits until grant monies are received to operate the programs. The cash deficits were covered by cash and cash equivalents from the General Fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2017, consisted of accounts receivable and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables, with the exception of the Belmont Building, are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
School District Payments for Services	$122,688
St. Clairsville-Richland City School District Fox Run Agreement	470,041
Alternative Schools Payments for Services	4,329
Bureau of Workers' Compensation Rebate	32,843
State Foundation Adjustment	2,421
Belmont County School District's Building Contribution	105,000
Straight A Grant	25,760
Title I Grant	70,684
IDEA-B Grant	863
21st Century Grant	341,362
Total	$1,175,991

Belmont County Building Contributions - In December 2015, seven Belmont County school districts signed an addendum to Service Agreement with the Educational Service Center. The School Districts wish to include additional services that the Educational Service Center will provide pursuant to Section 3313.845 of Ohio Revised Code. In consideration of the services contained in the addendum, the Educational Service Center purchased property to be used for the delivery of educational services to students served by the school districts. In consideration of the above, seven Belmont County school districts agreed to pay the sum of $5,000 per year for a period of five years, for a total payment of $25,000 per school district. At June 30, 2017 $105,000 remains outstanding with $35,000 due within one year.

St. Clairsville-Richland City School District / Fox Run - The Educational Service Center entered into an agreement with St. Clairsville-Richland City School District (the "District") for the operation of the Fox Run Center for Children and Adolescents. Under the agreement, the Educational Service Center provides funding, staffing, supervision, materials and other services necessary to provide education programs at Fox Run consistent with the standards of the Ohio Department of Education and continuing until termination of the Agreement under its terms. The Educational Service Center will also insure compliance with all State of Ohio Department of Education standards for such programs. The Educational Service Center will provide for the hiring, evaluation and supervision of all teachers and related service personnel and for the implementation and provision of such educational programs as are necessary, in accordance with State Law and standards adopted by the Ohio State Board of Education, and to provide the educational programs necessary to meet the needs of the students receiving their educational programs at Fox Run. Finally, the Educational Service Center will provide for specialized equipment, replacement equipment, materials, and supplies necessary to conduct educational programs in accordance with the State Department of Education standards. The amount reported as intergovernmental receivable at June 30, 2017 is $470,041.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Restated Balance 06/30/16	Additions	Deductions	Balance 06/30/17
Governmental activities:				
Nondepreciable Capital Assets:				
Land	$22,360	$0	$0	$22,360
Depreciable Capital Assets:				
Land improvements	90,914	0	0	90,914
Buildings and improvements	2,163,422	7,770	0	2,171,192
Furniture and equipment	671,677	0	0	671,677
Vehicles	97,568	27,200	(23,000)	101,768
Total Depreciable Capital Assets:	3,023,581	34,970	(23,000)	3,035,551
Accumulated Depreciation				
Land improvements	(75,004)	(4,546)	0	(79,550)
Buildings and improvements	(933,696)	(69,679)	0	(1,003,375)
Furniture and equipment	(399,649)	(67,560)	0	(467,209)
Vehicles	(55,511)	(10,304)	10,063	(55,752)
Total Accumulated Depreciation	(1,463,860)	(152,089)	10,063	(1,605,886)
Total Depreciablbe Capital Assets, Net	1,559,721	(117,119)	(12,937)	1,429,665
Governmental activities capital assets, net	$1,582,081	($117,119)	($12,937)	$1,452,025

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$22,605
Support Services:	
Instructional Staff	51,518
Administration	61,382
Business	14,058
Operation and Maintenance	2,526
Total Depreciation Expense	$152,089

NOTE 10 - RISK MANAGEMENT

A. Property, Fleet, and General Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Educational Service Center contracted with The Hylant Insurance Company for commercial property insurance.

Building and Contents-replacement cost ($1,000 deductible)	$6,401,580
Automotive Liability ($500 deductible)	2,000,000
Uninsured Motorist ($500 deductible)	1,000,000
Medical Payments Limit	5,000
General Liability:	
Each Occurrence	2,000,000
Aggregated Limit	4,000,000
Employee Benefits Liability:	
Each Occurrence ($2,500 deductible)	2,000,000
Aggregated Limit	4,000,000
Employer's Liability:	
Each Occurrence	2,000,000
Disease - Each Employee	2,000,000
Disease - Limit	2,000,000
Legal Liability - Errors and Omission:	
Each Wrongful Act	2,000,000
Aggregate Limit	4,000,000
Sexual Misconduct Liability:	
Each Loss	2,000,000
Aggregate Limit	2,000,000

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

B. Workers' Compensation

For fiscal year 2017, the Educational Service Center participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

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

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

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

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

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was $322,083 for fiscal year 2017, of which the full amount has been contributed for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 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 year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 after termination of employment at age 50 or longer.

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. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Educational Service Center’s contractually required contribution to STRS was $831,213 for fiscal year 2017. Of this amount, $67,892 is reported as an intergovernmental 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service

Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.0705381%	0.05542284%	
Proportion of the Net Pension Liability Current Measurement Date	0.0710850%	0.05688500%	
Change in Proportionate Share	0.0005469%	0.00146216%	
Proportionate Share of the Net Pension Liability	$5,202,766	$19,041,124	$24,243,890
Pension Expense	$494,143	$2,026,402	$2,520,545

At June 30, 2017, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$70,173	$769,353	$839,526
Changes of assumptions	347,313	0	347,313
Net difference between projected and actual earnings on pension plan investments	429,153	1,580,925	2,010,078
Changes in proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	23,244	1,309,008	1,332,252
Educational Service Center contributions subsequent to the measurement date	322,083	831,213	1,153,296
Total Deferred Outflows of Resources	$1,191,966	$4,490,499	$5,682,465
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between Educational Service Center contributions and proportionate share of contributions	$80,181	$0	$80,181

$1,153,296 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$182,763	$781,868	$964,631
2109	182,454	781,869	964,323
2020	301,122	1,388,516	1,689,638
2021	123,363	707,033	830,396
Total	$789,702	$3,659,286	$4,448,988

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. 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 (7.50 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 Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Decrease (8.5%)
Educational Service Center's proportionate share of the net pension liability	$6,888,138	$5,202,766	$3,792,040

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follow:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* Ten year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	$25,304,107	$19,041,124	$13,757,929

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. As of June 30, 2017, no members of the Governing Board elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POST-EMPLOYMENT BENEFITS

A. School Employee Retirement System

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. 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. Active employee members do not contribute to the Health Care

Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was $23,500. 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 2017, Educational Service Center's surcharge obligation was $40,925.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $40,925, $36,251, and $54,345, respectively. The full amount is reported as an intergovernmental payable for fiscal year 2017. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, 2016 and 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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

NOTE 14 - CAPITAL LEASE – LESSEE DISCLOSURE

In prior years, the Educational Service Center entered into capitalized leases for copying equipment, buildings and improvements. Capital lease payments have been reclassified from functional expenditures and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of $777,326. Principal payments in fiscal year 2017 totaled $68,448 in the governmental funds.
Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	$3,783	$285	$4,068
2019	3,637	92	3,729
Total	$7,420	$377	$7,797

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2017 were as follows:

	Restated Outstanding 6/30/2016	Additions	Deletions	Outstanding 6/30/2017	Due Within One Year
Governmental Activities:					
Net Pension Liability:					
STRS	$15,317,252	$3,723,872	$0	$19,041,124	$0
SERS	4,024,972	1,177,794	0	5,202,766	0
Total Net Pension Liability	19,342,224	4,901,666	0	24,243,890	0
Capital Leases	75,868	0	(68,448)	7,420	3,783
Compensated Absences	175,274	47,825	(59,972)	163,127	93,937
Total Governmental Activities Long Term Liabilities	$19,593,366	$4,949,491	($128,420)	$24,414,437	$97,720

The capital lease will be paid from the General Fund. Compensated absences will be paid from the General Fund.

There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the General Funds. For additional information related to the net pension liability see Note 11.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council) - The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments.

The Council was created as a separate regional council of governments pursuant to State Statutes. The Council operates under the direction of a Board comprised of a representative from each participating school district. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. Each participants control is limited to its representation on the Board. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2017, the total amount paid to OME-RESA from the Educational Service Center was $16,060 for technology services, financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2230 Sunset Blvd Suite 2., Steubenville, Ohio 43952.

NOTE 17 - PUBLIC ENTITY POOL

Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) - The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Program, an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. The Educational Service Center's enrollment fee of $700 for policy year 2017 was paid to CompManagment, Inc.

Ohio School Plan (OSP) – The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Hylant Administrative Services and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Hylant Administrative Service is the sales and marketing representative, which establishes agreements between OSP and member schools.

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

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

NOTE 18 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 adverse effect on the overall financial position of the Educational Service Center at June 30, 2017.

B. Litigation

The Educational Service Center is currently not a party to any legal proceedings.

NOTE 19 - COMMITMENTS

The Educational Service Center utilizes encumbrance accounting as part of its purchasing controls. At June 30, 2017, the Educational Service Center's commitments for encumbrances in the governmental funds were $132,574 for the General Fund, and $53,030 for the other non-major governmental funds.

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Required

Supplementary

Information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

*Last Four Fiscal Years (1) **

	2017	2016	2015	2014
ESC's Proportion of the Net Pension Liability	0.07108500%	0.07053810%	0.07361000%	0.07361000%
ESC's Proportionate Share of the Net Pension Liability	$5,202,766	$4,024,972	$3,725,360	$4,377,350
ESC's Covered Payroll	$2,216,300	$2,123,566	$2,138,968	$2,177,327
ESC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	234.75%	189.54%	174.17%	201.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to required supplementary information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio

*Last Four Fiscal Years (1) **

	2017	2016	2015	2014
ESC's Proportion of the Net Pension Liability	0.05688500%	0.05542284%	0.04972006%	0.04972006%
ESC's Proportionate Share of the Net Pension Liability	$19,041,124	$15,317,252	$12,093,639	$14,405,864
ESC's Covered Payroll	$6,162,321	$5,922,271	$5,080,015	$5,045,400
ESC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	308.99%	258.64%	238.06%	285.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to required supplementary information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of Educational Service Center Contributions

School Employees Retirement System of Ohio

Last Ten Fiscal Years

	2017	2016	2015	2014
Contractually Required Contribution	$322,083	$310,282	$279,886	$296,461
Contributions in Relation to the Contractually Required Contribution	(322,083)	(310,282)	(279,886)	(296,461)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll	$2,300,593	$2,216,300	$2,123,566	$2,138,968
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

See accompanying notes to required supplementary information

2013	2012	2011	2010	2009	2008
$301,342	$257,660	$210,994	$195,498	$110,440	$119,136
(301,342)	(257,660)	(210,994)	(195,498)	(110,440)	(119,136)
$0	$0	$0	$0	$0	$0
$2,177,327	$1,915,688	$1,678,552	$1,443,855	$1,122,358	$1,213,198
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of Educational Service Center Contributions

State Teachers Retirement System of Ohio

Last Ten Fiscal Years

	2017	2016	2015	2014
Contractually Required Contribution	$831,213	$862,725	$829,118	$660,402
Contributions in Relation to the Contractually Required Contribution	(831,213)	(862,725)	(829,118)	(660,402)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll	$5,937,236	$6,162,321	$5,922,271	$5,080,015
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

See accompanying notes to required supplementary information

2013	2012	2011	2010	2009	2008
$655,902	$566,494	$522,298	$519,268	$451,465	$469,979
(655,902)	(566,494)	(522,298)	(519,268)	(451,465)	(469,979)
$0	$0	$0	$0	$0	$0
$5,045,400	$4,357,646	$4,017,677	$3,994,369	$3,472,808	$3,615,223
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR ***Pass-Through Grantor*** **Program / Cluster Title**	**Federal CFDA Number**	**Pass Through Entity Identifying Number**	**Total Federal Expenditures**
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	$31,512
National School Lunch Program	10.555	N/A	50,746
Total Child Nutrition Cluster			82,258
Total U.S. Department of Agriculture			82,258
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A150035	36,485
		S010A160035	70,202
Total Title I Grants to Local Educational Agencies			106,687
Special Education Cluster:			
Special Education - Preschool Grants (IDEA Preschool)	84.173	N/A	59,162
21st Century Community Learning Centers	84.287	S287C150035	44,171
		S287C160035	1,400,000
Total 21st Century Community Learning Centers			1,444,171
Total U.S. Department of Education			1,610,020
Total Expenditures of Federal Awards			**$1,692,278**

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the East Central Ohio Educational Service Center (the ESC's) under programs of the federal government for the year ended June 30, 2017. 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 Educational Service Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Educational Service Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated February 14, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the 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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the 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 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider Finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the 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*.

Educational Service Center's Response to Findings

The Educational Service Center's response to the Finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Educational Service Center's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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 Educational Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

February 14, 2018

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

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

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the East Central Ohio Educational Service Center's, Tuscarawas County, Ohio (the Educational Service Center), 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 East Central Ohio Educational Service Center's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the Educational Service Center's major federal program.

Management's Responsibility

The 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 program.

Auditor's Responsibility

Our responsibility is to opine on the Educational Service Center's compliance for the 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 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 Educational Service Center's major program. However, our audit does not provide a legal determination of the Educational Service Center's compliance.

53 Johnson Road, The Plains, Ohio 45780-1231
Phone: 740-594-3300 or 800-441-1389 Fax: 740-594-2110
www.ohioauditor.gov

Opinion on the Major Federal Program

In our opinion, the East Central Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affects its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The 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 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 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.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

February 14, 2018

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR §200.516(a)?**	No
(d)(1)(vii)	**Major Program (list):** • Twenty-First Century Community Learning Centers – CFDA #84.287	
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee under 2 CFR §200.520?**	No

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

FINDING NUMBER 2017-001

Material Weakness

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

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

FINDING NUMBER 2017-001 (Continued)

Material Weakness (Continued)

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

- General Fund Intergovernmental Receivable was overstated by $50,417. This occurred as $3,189 of the receivable was actually received from non-governmental entities and should have been reported as Accounts Receivable, $44,118 should have been reported in the Agency Funds and $3,110 was from fiscal year 2018 billings and did not relate to fiscal year 2017 reporting. Additionally, revenue relating to these receivables was incorrectly overstated by $47,228. As result of the difference in reporting in the Agency Funds, Intergovernmental Payable was also understated by $44,118.

- Agency Fund liabilities of $86,785 (excluding the difference noted in the prior paragraph) were incorrectly reported as Due to Students instead of Intergovernmental Payable. Agency Fund activity at the Educational Service Center does not relate to student operating activity like most school districts. As a result, Due to Students was not an appropriate liability classification.

- Governmental Accounting Standard Board (GASB) Codification 1800.174 required that constraints on funds by management should be reported as an Assigned Fund Balance, unless already reported with Restricted or Committed Fund Balances. Constraints on funds include encumbering for purchases. At June 30, 2017, the Educational Service Center had $132,754 in outstanding encumbrances, excluding amounts reported within payables, in the General Fund. This should have been reported within the Assigned Fund Balance classification but was incorrectly included in the Unassigned Fund Balance classification. Of this amount, $102,946 should have been reported as Assigned for Student Instruction, $27,108 should have been reported as Assigned for Support Services and $2,700 should have been reported as Assigned for Facilities Acquisition and Construction.

The financial statements have been adjusted accordingly for the above listed items.

We also noted various insignificant adjustments and reclassifications as follows:

- General Fund Intergovernmental Revenue was overstated by $75,896 and Charges for Services were understated by $75,896. This occurred as revenue received during the available period relating to receivables was incorrectly classified. Revenue received from other governmental entities was for services performed and should have been classified as Charges for Services.

- Other Governmental Funds Intergovernmental Receivable and Intergovernmental Revenue were understated by $7,031 as a June 2017 nutrition reimbursement received in July 2017 was incorrectly excluded from reporting.

- Other Governmental Funds Intergovernmental Revenue and Food Service Operations were understated by $4,214 as Federal nutrition reimbursements received in July 2016 were eliminated from reporting.

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

FINDING NUMBER 2017-001 (Continued)

- Depreciable Capital Assets were understated by $102,535 as building improvements were not properly included in the capital asset additions.

Failure to properly report financial activity in accordance with generally accepted accounting principles could result in material misstatements occurring and remaining undetected and fail to provide management with an accurate picture of the Educational Service Center's financial position and operations.

The Educational Service Center should take the necessary steps to help ensure revenues, expenditures/ expenses, assets, deferred outflows of resources, liabilities, deferred inflows of resources and equity of the Educational Service Center are properly presented and disclosed in the Educational Service Center's financial statements.

Officials' Response: See Corrective Action Plan.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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Tuscarawas County Office
834 East High Avenue
New Philadelphia, Ohio 44663
(330) 308-9939 Phone
(866) 422-3216 Toll Free Fax

Belmont County Office
150 W. Main St., Suite 300
St. Clairsville, Ohio 43950
Phone (740) 695-9773
Toll Free Fax (866) 422-3216

Randy Lucas
Superintendent
randy.lucas@ecoesc.org

Matt King
Treasurer/CFO
matt.king@ecoesc.org

…Helping Schools Help Children in Tuscarawas, Carroll, Harrison and Belmont Counties…

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Classification of Title I-D Activity	Corrective Action Taken and Finding is Fully Corrected	N/A
2016-002	Purchasing Process Controls	Corrective Action Taken and Finding is Fully Corrected	N/A

Tuscarawas County Office
834 East High Avenue
New Philadelphia, Ohio 44663
(330) 308-9939 Phone
(866) 422-3216 Toll Free Fax

Belmont County Office
150 W. Main St., Suite 300
St. Clairsville, Ohio 43950
Phone (740) 695-9773
Toll Free Fax (866) 422-3216

East Central Ohio Educational Service Center

Randy Lucas
Superintendent
randy.lucas@ecoesc.org

Matt King
Treasurer/CFO
matt.king@ecoesc.org

…Helping Schools Help Children in Tuscarawas, Carroll, Harrison and Belmont Counties…

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The ESC will ensure that the financial statements and GAAP conversion amounts are properly presented and disclosed for FY2018.	06/30/2018	Matt King-Treasurer

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 27, 2018