

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

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

LORRAINE EARNEST, TREASURER



Dave Yost • Auditor of State

Board of Education
Mid-Ohio Educational Service Center
890 W. Fourth Street, Suite 100
Mansfield, Ohio 44906

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

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

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

Dave Yost
Auditor of State

December 14, 2016

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Mid-Ohio Educational Service Center
Richland County
890 W. Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Accounting Basis

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

Other Matters

Supplemental Information

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

The budgetary comparison schedule for the General fund as listed in the table of contents (the "Budgetary Schedule") provides additional analysis and is not a required part of the basic financial statements.

The Budgetary 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 this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and 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 Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, on our consideration of the Mid-Ohio 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 Mid-Ohio Educational Service Center's internal control over financial reporting and compliance.



Julian & Grube, Inc.
September 23, 2016

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net cash position of governmental activities increased \$908,292 which represents a 10.96% increase from 2015.
- General cash receipts accounted for \$2,704,812 or 22.82% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$9,148,575 or 77.18% of total governmental activities cash receipts of \$11,853,387.
- The ESC had \$10,945,095 in cash disbursements related to governmental activities; \$9,148,575 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,704,812 were adequate to provide for these programs.
- The ESC's major governmental fund is the general fund. The general fund had \$11,096,672 in cash receipts and \$10,457,239 in cash disbursements. During fiscal year 2016, the general fund's fund cash balance increased \$639,433 from \$8,483,780 to \$9,123,213.

Using these Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the ESC's cash basis of accounting.

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

Reporting the ESC as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at cash basis financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position - cash basis and statement of activities - cash basis answer this question. These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

The ESC's statement of net positions - cash basis and statement of activities - cash basis can be found on pages 12-13 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the ESC is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross receipts and disbursements on the fund financial statements to the statement of activities - cash basis due to transfers between governmental funds being eliminated for reporting in the statement of activities - cash basis. The governmental fund statements can be found on pages 14-15 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. Only the cash held at year end is reported in a separate statement of cash basis assets and net cash assets - fiduciary fund assets on page 16. This cash is excluded from the ESC's other financial statements because the cash cannot be utilized by the ESC to finance its operations.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the cash basis basic financial statements can be found on pages 17-37 of this report.

The ESC as a Whole

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

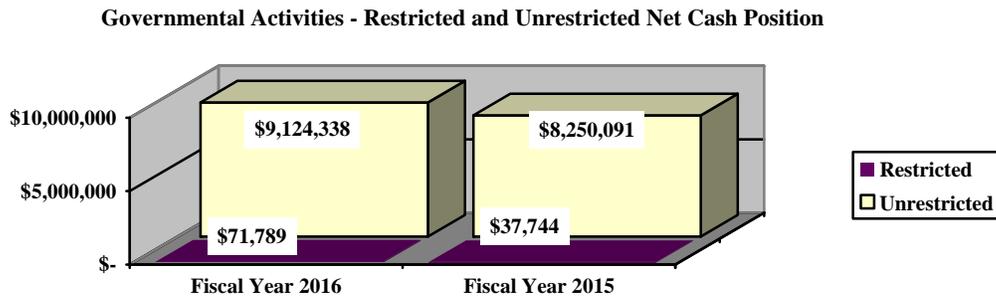
The table below provides a summary of the ESC's net cash position for 2016 and 2015.

	Net Cash Position	
	Governmental Activities 2016	Governmental Activities 2015
<u>Assets</u>		
Equity in pooled cash, cash equivalents and investments	\$ 9,196,127	\$ 8,287,835
<u>Net Cash Position</u>		
Restricted	\$ 71,789	\$ 37,744
Unrestricted	9,124,338	8,250,091
Total net cash position	\$ 9,196,127	\$ 8,287,835

Over time, net cash position can serve as a useful indicator of a government's financial position. At June 30, 2016, the ESC's total net cash position was \$9,196,127.

A portion of the ESC's net cash position, \$71,789, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash position of \$9,124,338 may be used to meet the ESC's ongoing obligations to students and creditors.

The graph below presents the ESC's governmental activities restricted and unrestricted net cash position for fiscal years 2016 and 2015.



**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

The table below shows the change in net cash position for fiscal years 2016 and 2015.

	Change in Net Cash Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Cash Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 8,120,756	\$ 7,666,762
Operating grants and contributions	1,027,819	1,571,187
General cash receipts:		
Grants and entitlements	2,665,900	3,378,973
Investment earnings	<u>38,912</u>	<u>24,452</u>
Total cash receipts	<u>11,853,387</u>	<u>12,641,374</u>
<u>Cash Disbursements</u>		
Program expenses:		
Instruction:		
Regular	\$ 241,643	\$ 309,780
Special	2,420,663	2,496,347
Support services:		
Pupil	3,837,909	3,804,344
Instructional staff	894,607	1,531,573
Board of education	71,054	68,875
Administration	1,418,570	1,267,649
Fiscal	564,873	601,720
Business	227,185	224,875
Operations and maintenance	640,788	638,230
Central	366,122	428,297
Other non-instructional services	261,681	402,665
Debt service:		
Principal retirement	-	23,618
Interest and fiscal charges	<u>-</u>	<u>387</u>
Total cash disbursements	<u>10,945,095</u>	<u>11,798,360</u>
Change in net cash assets	<u>908,292</u>	<u>843,014</u>
Net cash assets at beginning of year	<u>8,287,835</u>	<u>7,444,821</u>
Net cash assets at end of year	<u>\$ 9,196,127</u>	<u>\$ 8,287,835</u>

**MID-OHIO EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

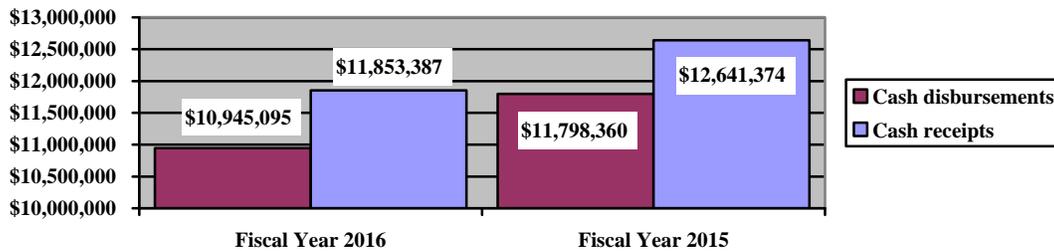
Governmental Activities

Net cash position of the ESC's governmental activities increased \$908,292. Total governmental cash disbursements of \$10,945,095 were offset by program cash receipts of \$9,148,575 and general cash receipts of \$2,704,812. Program cash receipts supported 83.59% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 68.51% of total governmental cash receipts.

The largest cash disbursement of the ESC is for support services. Support services cash disbursements totaled \$8,021,108 or 73.28% of total governmental cash disbursements for fiscal year 2016. The graph below presents the ESC's governmental activities cash receipts and cash disbursements for fiscal years 2016 and 2015.

Governmental Activities - Cash Receipts and Disbursements



**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program cash disbursements				
Instruction:				
Regular	\$ 241,643	\$ 25,996	\$ 309,780	\$ 257,081
Special	2,420,663	48,568	2,496,347	138,448
Support services:				
Pupil	3,837,909	452,968	3,804,344	563,824
Instructional staff	894,607	(86,369)	1,531,573	112,782
Board of education	71,054	(209,079)	68,875	(227,172)
Administration	1,418,570	176,794	1,267,649	203,441
Fiscal	564,873	531,886	601,720	537,582
Business	227,185	227,185	224,875	224,875
Operations and maintenance	640,788	343,654	638,230	307,818
Central	366,122	363,950	428,297	424,814
Other non-instructional services	261,681	(79,033)	402,665	(7,087)
Debt service:				
Principal retirement	-	-	23,618	23,618
Interest and fiscal charges	-	-	387	387
Total cash disbursements	<u>\$ 10,945,095</u>	<u>\$ 1,796,520</u>	<u>\$ 11,798,360</u>	<u>\$ 2,560,411</u>

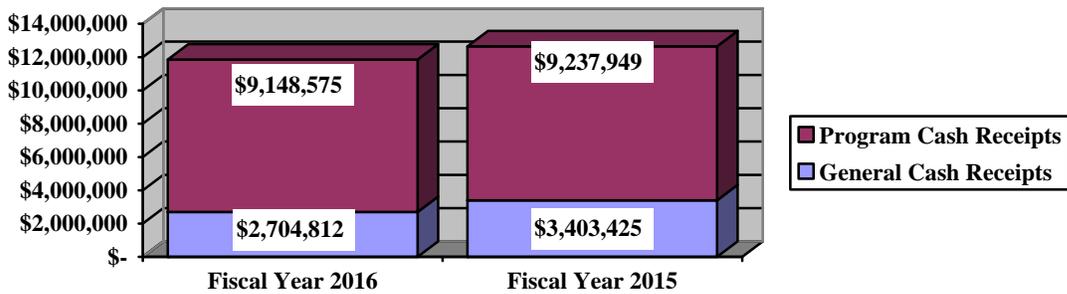
**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

The ESC primarily depends upon charges for services provided by member districts; however, dependence upon other general cash receipts for governmental activities is apparent as 22.45% of support services activities are supported through grants and entitlements (including State foundation) and other general cash receipts. For all governmental activities, general cash receipt support is 16.41%.

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

Governmental Activities - General and Program Cash Receipts



The ESC's Funds

The ESC's governmental funds reported a combined fund cash balance of \$9,196,127, which is more than last year's total of \$8,287,835. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2016 and 2015.

	Fund Cash Balance June 30, 2016	Fund Cash Balance (Deficit) June 30, 2015	Increase	Percentage Change
General	\$ 9,123,213	\$ 8,483,780	\$ 639,433	7.54 %
Other Governmental	72,914	(195,945)	268,859	137.21 %
Total	\$ 9,196,127	\$ 8,287,835	\$ 908,292	10.96 %

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

General Fund

The ESC's general fund cash balance increased \$639,433. The table that follows assists in illustrating the cash financial activities of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts</u>				
Tuition	\$ 4,565,464	\$ 4,038,112	\$ 527,352	13.06 %
Contract services	3,172,468	3,193,460	(20,992)	(0.66) %
Earnings on investments	38,912	24,452	14,460	59.14 %
Intergovernmental	2,937,004	3,670,794	(733,790)	(19.99) %
Rental income	297,134	330,412	(33,278)	(10.07) %
Other	<u>85,690</u>	<u>104,778</u>	<u>(19,088)</u>	(18.22) %
Total	<u>\$ 11,096,672</u>	<u>\$ 11,362,008</u>	<u>\$ (265,336)</u>	(2.34) %
<u>Cash Disbursements</u>				
Instruction	\$ 2,581,100	\$ 2,724,290	\$ (143,190)	(5.26) %
Support services	7,874,055	7,595,139	278,916	3.67 %
Other non-instructional services	2,084	535	1,549	289.53 %
Debt service	<u>-</u>	<u>24,005</u>	<u>(24,005)</u>	(100.00) %
Total	<u>\$ 10,457,239</u>	<u>\$ 10,343,969</u>	<u>\$ 113,270</u>	1.10 %

Earnings on investments increased \$14,460 or 59.14% due to an increase in interest rates. Tuition receipts increased \$527,352 or 13.06% due mainly to an increase in miscellaneous tuition from other Districts. Intergovernmental receipts decreased \$733,790 or 19.99% due mainly to a decrease in other unrestricted grants-in-aid received by the ESC. Other revenues decreased \$19,088 or 18.22% due mainly to reductions of other miscellaneous receipts. Debt service disbursements decreased \$24,005 or 100.00% due to the conclusion of a lease agreement.

Capital Assets and Debt Administration

Capital Assets

The ESC does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The ESC is not permitted to issue debt.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Current Financial Related Activities

The Mid-Ohio Educational Service Center operates on sound financial ground relying on contracts with area agencies and local, city and exempted village school districts in the counties of Richland, Morrow, Crawford, and Seneca as well as State foundation revenue and grants. The future financial stability of the ESC is not without concern in light of the State's continued decrease in funding to Educational Service Centers.

The primary focus of the ESC continues to be on meeting the needs of client districts with the ultimate goal of providing the necessary resources to meet student needs. The ESC prides itself on providing quality service while at the same time being sensitive to the financial hardships facing its client districts. A sound system of budgeting and internal controls enables the ESC to operate efficiently and to meet the financial challenges of the future.

Contacting the ESC's Financial Management

The financial report is designed to provide citizens, investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money received. Questions about the report may be directed to: Mrs. Lorraine Earnest, Treasurer, Mid-Ohio Educational Service Center, 890 West Fourth Street, Suite 100, Mansfield, Ohio 44906.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 9,196,127
 Total assets.	 \$ 9,196,127
 Net cash position:	
Locally funded programs	\$ 664
State funded programs.	23,659
Federally funded programs	44,442
Other purposes	3,024
Unrestricted	9,124,338
Total net cash position	\$ 9,196,127

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Cash Disbursements) Cash Receipts and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 241,643	\$ -	\$ 215,647	\$ (25,996)
Special	2,420,663	2,344,728	27,367	(48,568)
Support services:				
Pupil	3,837,909	3,253,569	131,372	(452,968)
Instructional staff	894,607	975,582	5,394	86,369
Board of education	71,054	9,029	271,104	209,079
Administration	1,418,570	1,240,714	1,062	(176,794)
Fiscal	564,873	-	32,987	(531,886)
Business	227,185	-	-	(227,185)
Operations and maintenance	640,788	297,134	-	(343,654)
Central	366,122	-	2,172	(363,950)
Other non-instructional services	261,681	-	340,714	79,033
Total governmental activities	<u>\$ 10,945,095</u>	<u>\$ 8,120,756</u>	<u>\$ 1,027,819</u>	<u>(1,796,520)</u>
General Cash Receipts:				
Grants and entitlements not restricted				
to specific programs				
				2,665,900
Investment earnings				
				<u>38,912</u>
Total general cash receipts				<u>2,704,812</u>
Change in net cash position.				908,292
Net cash position at beginning of year				<u>8,287,835</u>
Net cash position at end of year.				<u>\$ 9,196,127</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND FUND CASH BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash assets:			
Equity in pooled cash and investments	\$ 9,123,213	\$ 72,914	\$ 9,196,127
Total cash basis assets	<u>\$ 9,123,213</u>	<u>\$ 72,914</u>	<u>\$ 9,196,127</u>
Fund cash balances:			
Restricted:			
Adult education	\$ -	\$ 9,466	\$ 9,466
Targeted academic assistance	-	3,319	3,319
Other purposes.	-	59,004	59,004
Committed:			
Capital improvements	101,711	-	101,711
Technology maintenance.	25,289	-	25,289
Other purposes	-	1,125	1,125
Assigned:			
Services provided to districts.	135,654	-	135,654
Preschool programs	335,587	-	335,587
After school programs.	5,447,302	-	5,447,302
Special education programs	211,221	-	211,221
Professional development programs	26,019	-	26,019
Other purposes.	31,077	-	31,077
Unassigned	2,809,353	-	2,809,353
Total fund cash balances	<u>\$ 9,123,213</u>	<u>\$ 72,914</u>	<u>\$ 9,196,127</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Tuition.	\$ 4,565,464	\$ -	\$ 4,565,464
Contract services.	3,172,468	-	3,172,468
Earnings on investments	38,912	-	38,912
Extracurricular.	8,817	-	8,817
Contributions and donations	9,029	-	9,029
Rental income	297,134	-	297,134
Other local revenues	67,844	-	67,844
Intergovernmental - state	2,665,900	153,103	2,819,003
Intergovernmental - federal	271,104	603,612	874,716
Total cash receipts	<u>11,096,672</u>	<u>756,715</u>	<u>11,853,387</u>
Cash disbursements:			
Current:			
Instruction:			
Regular.	187,804	53,839	241,643
Special	2,393,296	27,367	2,420,663
Support services:			
Pupil	3,719,562	118,347	3,837,909
Instructional staff	894,607	-	894,607
Board of education	71,054	-	71,054
Administration	1,417,490	1,080	1,418,570
Fiscal	539,425	25,448	564,873
Business.	227,185	-	227,185
Operations and maintenance	640,788	-	640,788
Central	363,944	2,178	366,122
Other non-instructional services	2,084	259,597	261,681
Total cash disbursements.	<u>10,457,239</u>	<u>487,856</u>	<u>10,945,095</u>
Net change in cash fund balances.	639,433	268,859	908,292
Fund cash balances (deficit)			
at beginning of year	8,483,780	(195,945)	8,287,835
Fund cash balances at end of year	<u>\$ 9,123,213</u>	<u>\$ 72,914</u>	<u>\$ 9,196,127</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND NET CASH ASSETS
FIDUCIARY FUND
JUNE 30, 2016

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash investments	\$ 105,386
Total assets.	<u>\$ 105,386</u>
Net cash assets:	
Restricted for distribution to others	\$ 105,386
Total net cash assets	<u>\$ 105,386</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ENTITY

The Mid-Ohio Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. The ESC was formed from the consolidation of the former Crawford County, Morrow County, and Richland County Educational Service Centers on July 1, 1996. Educational Service Centers were formed as a result of Senate Bill 9 as amended by Am. Sub. H.B. 117.

The ESC maintains its central office in Richland County. The Governing Board consists of seven members elected by the voters of each county. This Governing Board acts as the authorizing body for disbursements, policy and procedures, and approves all financial activities. The ESC is staffed by 34 non-certified employees, 76 certified employees, and 9 administrators to provide services to approximately 26,500 students throughout Crawford, Morrow, and Richland Counties. The ESC is also a sponsor for GOAL Digital Academy.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's Governing Board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the ESC has no component units. The basic financial statements of the reporting entity include only those of the ESC (the primary government).

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have any equity interest in the COG. Financial information can be obtained from Linda Schumacher, Treasurer of the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Business Advisory Councils of Crawford, Morrow, and Richland Counties

The ESC appoints Business Advisory Councils (the "Councils") in accordance with Ohio Revised Code, Section 3313.174. The purpose of the Councils is to provide insight, generate suggestions, and promote a positive relationship between the ESC and the communities it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within the ESC's financial means, in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The Councils are composed of an optional number of members as determined by the ESC Superintendent. The membership may be selected from the fields of commercial, industrial, service, agricultural and governmental agencies. Consideration may also be given to one citizen representative from each of the local districts. Each local superintendent may also serve as an "ex officio" member. The ESC Superintendent, or his designee, serves as the chairman of the council.

The Superintendent of the ESC is required to develop administrative guidelines which will ensure that the time and efforts of the Councils and those of the professional staff are utilized properly to accomplish these educational outcomes and to provide for a continued, strong working relationship between the school community, the Councils, and the larger community of employers.

The ESC is fiscal agent for the Councils, but has no ongoing financial interest or financial responsibility to the Councils.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

Pioneer Career and Technology Center

The Pioneer Career and Technology Center (the “Center”), is a distinct political subdivision of the State of Ohio, operated under the direction of an eleven member Board of Education, which consists of one representative from each of the participating school district’s elected board. The Center possesses its own budgeting and taxing authority. Financial information is available from Linda Schumacher, Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875. The ESC has no ongoing financial interest or financial responsibility to the Center.

Tri-Rivers Career Center

The Tri-Rivers Career Center (the “Center”) is a political subdivision of the State of Ohio. The Center is operated under the direction of a thirteen member Board of Education, which consists of one representative from each of the participating school districts’ elected boards. The Center possesses its own budgeting and taxing authority. Financial information is available from Steve Earnest, Treasurer of the Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. The ESC has no ongoing financial interest or financial responsibility to the Center.

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services. See Note 5.B. for further information.

Ohio School Boards Association Workers’ Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers’ Compensation Group Rating Plan (the “Plan”), an insurance purchasing pool. The Plan was established under Section 4123.29 of the Ohio Revised Code. The Plan’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 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 Plan to cover the costs of administering the program. See Note 5.C. for further information pertaining to this insurance purchasing pool.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the ESC chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

C. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The ESC does not have proprietary funds.

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund accounts for various resources held for other organizations and individuals, including the Business Advisory Council of Richland County and Succeed & Prosper through Education-Ashland, Richland, and Crawford Counties ("SPARC").

D. Basis of Presentation

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

The government-wide statement of activities - cash basis compares disbursements with program receipts for each function or program of the ESC's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the ESC. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the ESC.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

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

E. Budgets

Educational service centers do not have the authority to adopt annual legally-adopted appropriation budgets. However, the ESC has chosen to adopt an appropriation resolution for internal control purposes. Therefore, even though a statement or schedule of budgetary results is not required to be presented, the ESC has chosen to present a budgetary schedule as supplemental information.

F. Cash and Investments

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

During fiscal year 2016, investments were limited to State Treasury Asset Reserve of Ohio ("STAR Ohio"), nonnegotiable certificates of deposit, negotiable certificates of deposit, U.S. Government money market accounts and federal agency securities. Investments are reported at cost.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$38,912, which includes \$55 in interest assigned from other funds.

For presentation on the cash basis basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

H. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting.

I. Long-Term Obligations

Long-term obligations arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid.

J. Fund Cash Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact.

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

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

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

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

K. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. Other purposes consist of balances of the Timken Foundation Grant Fund.

The ESC applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available. As of June 30, 2016, there was no net cash position restricted by enabling legislation.

L. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 disbursements to the funds that initially paid for them are not presented on the cash basis basic financial statements. Interfund activity between governmental funds is eliminated in the statement of activities.

M. Pensions

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

N. Extraordinary and Special Items

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

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

B. Change in Accounting Principles

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

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

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

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the ESC into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above, and repurchase agreements secured by such obligations, provided that investments in such securities are made only through eligible institutions;
6. The State Treasurer's investment pool, STAR Ohio;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all ESC deposits was \$7,982,103. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$5,175,521 of the ESC's bank balance of \$8,215,044 was exposed to custodial risk as discussed below, while \$3,039,523 was covered by the FDIC.

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

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

<u>Investment type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
			<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Negotiable CD's	\$ 200,000	\$ 200,156	\$ -	\$ -	\$ -	\$ 200,156	\$ -
FHLB	100,000	100,001	100,001	-	-	-	-
FFCB	399,652	401,780	-	-	100,009	-	301,771
FNMA	100,000	100,012	-	-	-	-	100,012
FHLMC	49,975	50,180	-	-	-	-	50,180
Governmental Money Market	363,107	363,107	363,107	-	-	-	-
STAR Ohio	106,676	106,676	106,676	-	-	-	-
Total	<u>\$ 1,319,410</u>	<u>\$ 1,321,912</u>	<u>\$ 569,784</u>	<u>\$ -</u>	<u>\$ 100,009</u>	<u>\$ 200,156</u>	<u>\$ 451,963</u>

The weighted average maturity of investments is 1.39 years.

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The ESC's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable certificates of deposit and U.S. government money market account were not rated. The ESC has no investment policy dealing with investments credit risk beyond the requirements in State statutes.

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

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer.

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The following table includes the percentage of each investment type held by the ESC at June 30, 2016:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% of total</u>
Negotiable CD's	\$ 200,000	15.14
FHLB	100,000	7.56
FFCB	399,652	30.39
FNMA	100,000	7.57
FHLMC	49,975	3.80
Governmental Money Market	363,107	27.47
STAR Ohio	106,676	8.07
Total	<u>\$ 1,319,410</u>	<u>100.00</u>

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,982,103
Investments	<u>1,319,410</u>
Total	<u>\$ 9,301,513</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 9,196,127
Agency funds	<u>105,386</u>
Total	<u>\$ 9,301,513</u>

NOTE 5 - RISK MANAGEMENT

A. Comprehensive Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. During fiscal year 2016, the ESC contracted with Trident Insurance Services.

Coverages are as follows:

Building contents - replacement cost (\$1,000 deductible)	\$16,891,000
General liability per occurrence/excess	1,000,000

Settled claims have not exceeded these overages in any of the past three years. There has been no significant reduction in coverage from the prior year.

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

NOTE 5 - RISK MANAGEMENT - (Continued)

B. Health Benefits

For fiscal year 2016, the ESC has contracted with the Stark County Schools Council of Governments (a shared risk pool) (Note 2.A.) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The ESC pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating entities. The ESC's Governing Board pays a percentage of the premiums. For fiscal year 2016, the monthly premium for medical/prescription was \$1,610.86 for family coverage and \$663.18 for single coverage, the Board pays 85% and 90% respectively; dental was \$207.72 for family coverage and \$84.26 for single coverage, the Board pays 85% and 90% respectively; vision was \$44.12 for family coverage and \$17.68 for single coverage, with nothing paid by the Board; and life insurance was \$3.75 for family or single coverage and the Board pays 100%.

Postemployment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 7.

C. Workers' Compensation

For fiscal year 2016, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") (Note 2.A.), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to entities that can meet the Plan's selection criteria. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the Plan.

NOTE 6 - PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

NOTE 6 - PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

NOTE 6 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was \$208,129 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description - ESC licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS Ohio. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 year 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 increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - PENSION PLANS - (Continued)

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The ESC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS Ohio was \$706,027 for fiscal year 2016.

Net Pension Liability

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

	SERS	STRS	Total
Proportionate share of the net pension liability	\$ 3,272,584	\$ 13,415,365	\$ 16,687,949
Proportion of the net pension liability	0.05735240%	0.04854119%	

Actuarial Assumptions - SERS

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

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

NOTE 6 - PENSION PLANS - (Continued)

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

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

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

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - PENSION PLANS - (Continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 4,537,897	\$ 3,272,584	\$ 2,207,085

Actuarial Assumptions - STRS Ohio

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

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

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

NOTE 6 - PENSION PLANS - (Continued)

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

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

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

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

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

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

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

NOTE 6 - PENSION PLANS - (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 18,634,954	\$ 13,415,365	\$ 9,001,424

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$29,950, \$50,634, and \$41,611, respectively. 100 percent has been contributed for fiscal years 2016, 2015 and 2014.

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

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The ESC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$54,365, respectively; 100 percent has been contributed for fiscal year 2014.

NOTE 8 - CONTINGENCIES

A. Grants

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

B. Litigation

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

SUPPLEMENTAL INFORMATION

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Cash receipts:				
From local sources:				
Tuition.	\$ 4,435,900	\$ 4,550,459	\$ 4,565,464	\$ 15,005
Contract services.	2,433,114	2,510,714	3,092,561	581,847
Earnings on investments	337,750	346,182	336,046	(10,136)
Extracurricular.	80,500	82,616	84,347	1,731
Contributions and donations	250	304	2,150	1,846
Other local revenues	71,670	73,372	67,846	(5,526)
Intergovernmental - state	2,520,355	2,587,249	2,665,900	78,651
Intergovernmental - federal	260,000	266,803	271,104	4,301
Total cash receipts.	<u>10,139,539</u>	<u>10,417,700</u>	<u>11,085,418</u>	<u>667,718</u>
Cash disbursements:				
Current:				
Instruction:				
Regular	158,546	182,876	187,804	(4,928)
Special.	2,040,792	2,123,857	2,385,615	(261,758)
Support services:				
Pupil.	3,659,195	3,795,528	3,719,562	75,966
Instructional staff	906,653	939,890	894,607	45,283
Board of education	65,287	68,471	71,054	(2,583)
Administration.	1,345,948	1,404,678	1,417,490	(12,812)
Fiscal	555,689	575,308	539,425	35,883
Business	246,105	254,368	227,185	27,183
Operations and maintenance.	755,501	783,807	640,788	143,019
Central.	435,710	448,946	363,944	85,002
Other operation of non-instructional services	-	63	1,790	(1,727)
Total cash disbursements	<u>10,169,426</u>	<u>10,577,791</u>	<u>10,449,264</u>	<u>128,527</u>
Excess (deficiency) of cash receipts over (under) cash disbursements.	<u>(29,887)</u>	<u>(160,091)</u>	<u>636,154</u>	<u>796,245</u>
Other financing sources (uses):				
Transfers in	276,225	276,225	223,125	(53,100)
Transfers (out).	(276,225)	(276,225)	(223,125)	53,100
Sale of capital assets	200	200	-	(200)
Total other financing sources (uses)	<u>200</u>	<u>200</u>	<u>-</u>	<u>(200)</u>
Net change in fund cash balance	(29,687)	(159,891)	636,154	796,045
Fund cash balance at beginning of year	<u>8,455,982</u>	<u>8,455,982</u>	<u>8,455,982</u>	<u>-</u>
Fund cash balance at end of year	<u>\$ 8,426,295</u>	<u>\$ 8,296,091</u>	<u>\$ 9,092,136</u>	<u>\$ 796,045</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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RICHLAND COUNTY, OHIO**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICY

The ESC has chosen to prepare its financial statements and notes on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The ESC also prepares its budget on the cash basis of accounting. The differences between the schedule of cash receipts, cash disbursements and changes in fund balances - budget and actual (budgetary basis) (the "schedule") and the statement of cash receipts, cash disbursements and changes in fund balances (the "statement") are the reclassification of various receipts and disbursements made on the statement and not made on the schedule. In addition, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on the statement of cash receipts, cash disbursements and charges in fund cash balances. This includes a portion of the special rotary fund.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis schedule.

Net Change in Fund Cash Balance		<u>General Fund</u>
Budget basis		\$ 636,154
Funds budgeted elsewhere		<u>3,279</u>
Budget basis		<u>\$ 639,433</u>



Julian & Grube, Inc.

Serving Ohio Local Governments

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

Mid-Ohio Educational Service Center
Richland County
890 W. Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

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 cash-basis financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Mid-Ohio Educational Service Center, Richland County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Mid-Ohio Educational Service Center's basic financial statements and have issued our report thereon dated September 23, 2016, wherein we noted the Mid-Ohio Educational Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Board of Governors
Mid-Ohio Educational Service Center

Compliance and Other Matters

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

Mid-Ohio Educational Service Center's Response to Findings

Mid-Ohio Educational Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Mid-Ohio 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 Mid-Ohio 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 Mid-Ohio Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
September 23, 2016

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2016-001

Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38. Ohio Administrative Code Section 117-2-03(B) requires the Mid-Ohio Educational Service Center (the "ESC") to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The ESC prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP).

There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the ESC being fined or other administrative remedies.

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

Client Response: The decision to prepare cash basis financial statements is a decision the Mid-Ohio Educational Service Center Board of Governors believes to be in the best interests of the organization and its client entities. Each year the Board evaluates the cost-benefit relationship of preparing GAAP statements and for the year ended June 30, 2016, the Board again made the decision that the significant dollars saved, outweighed the benefit received. The foundation for these cost-containment decisions is based on the premise that the ESC provides valuable services to its client entities and that these services be provided at the lowest possible cost. The Board will continue to evaluate this decision on an annual basis.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; <u>Finding no Longer Valid</u>
2015-001	Noncompliance: Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the ESC to prepare its annual financial report in accordance with GAAP, however, the ESC prepared its annual financial report with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	No	Repeated as finding 2016-001

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Dave Yost • Auditor of State

MID-OHIO EDUCATIONAL SERVICE CENTER

RICHLAND 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
DECEMBER 27, 2016