



Dave Yost • Auditor of State



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CUYAHOGA COUNTY  
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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Cuyahoga County  
Cuyahoga County  
6393 Oak Tree Boulevard  
Independence, Ohio 44131

To the Governing Board:

### ***Report on the Financial Statements***

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

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

**Other Matters**

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

The Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget (Non-GAAP basis) and Actual present additional analysis and are not a required part of the basic financial statements.

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

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

***Other Reporting Required by Government Auditing Standards***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 13, 2017

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## **Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited*

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The management's discussion and analysis of the Educational Service Center of Cuyahoga County's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2016. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for 2016 include:

- In fiscal year 2016 total assets increased by \$6,352,063 and total liabilities increased by \$20,898,603. The increase in assets is due to revenues exceeding expenditures creating a higher cash balance. Also, capital assets increased due to the renovation of the 2<sup>nd</sup> floor of the administration building. The increase in liabilities is due to a higher net pension liability for fiscal year 2016.
- Total revenues increased by \$18,106,792 in fiscal year 2016 versus 2015 mainly due to the service center serving thirteen more school districts in fiscal year 2016. Total expenses increased by \$13,775,328 due to the servicing of the additional thirteen school districts.

### **Using this Annual Financial Report**

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Service Center, the general fund, title VI-B and miscellaneous federal grants special revenue funds are the most significant funds.

### **Reporting the Service Center as a Whole**

#### *Statement of Net Position and the Statement of Activities*

While this document contains all the funds used by the Service Center to provide services, the view of the Service Center as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why?" or "Why not?". The *Statement of Net Position* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all non-fiduciary assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited*

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These two statements report the Service Center's *net position* and any changes in the net position. The change in net position is important because it tells the readers that, for the Service Center as a whole, the *financial position* of the Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The *Statement of Net Position* and the *Statement of Activities* are represented by one type of activity, Governmental Activities. The Service Center's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

### Reporting the Service Center's Most Significant Funds

#### *Fund Financial Statements*

The analysis of the Service Center's major funds begins on page 15. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund, title VI-B and miscellaneous federal grants special revenue funds.

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

**Proprietary Fund** The Service Center maintains one proprietary fund. An internal service fund is an accounting device used to accumulate and allocate costs internally among the Service Center's various functions. The Service Center's internal service fund accounts for payments, administrative costs and reserves to cover the medical claims of Service Center employees. The propriety fund uses the accrual basis of accounting.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Service Center's programs. These funds use the accrual basis of accounting.

**Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2016*

*Unaudited*

**The Service Center as a Whole**

You may recall that the *Statement of Net Position* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net position for 2016 compared to 2015:

(Table 1)  
Net Position

|   | Governmental Activities |                       | Change              |
|---|-------------------------|-----------------------|---------------------|
|   | 2016                    | 2015                  |                     |
| <b>Assets</b>                           |                         |                       |                     |
| Current and Other Assets                | \$25,239,333            | \$19,973,049          | \$5,266,284         |
| Capital Assets, Net                     | 11,833,978              | 10,748,199            | 1,085,779           |
| <i>Total Assets</i>                     | <u>37,073,311</u>       | <u>30,721,248</u>     | <u>6,352,063</u>    |
| <b>Deferred Outflows of Resources</b>   |                         |                       |                     |
| Pension                                 | 18,690,099              | 7,092,661             | 11,597,438          |
| <b>Liabilities</b>                      |                         |                       |                     |
| Current and Other Liabilities           | 5,418,629               | 4,526,879             | (891,750)           |
| Long-Term Liabilities:                  |                         |                       |                     |
| Due Within One Year                     | 1,633,252               | 1,475,647             | (157,605)           |
| Due in More than One Year:              |                         |                       |                     |
| Net Pension Liability                   | 107,484,533             | 87,416,674            | (20,067,859)        |
| Other Amounts Due in More than One Year | 2,389,908               | 2,608,519             | 218,611             |
| <i>Total Liabilities</i>                | <u>116,926,322</u>      | <u>96,027,719</u>     | <u>(20,898,603)</u> |
| <b>Deferred Inflows of Resources</b>    |                         |                       |                     |
| Pension                                 | 6,701,689               | 15,487,593            | 8,785,904           |
| <b>Net Position</b>                     |                         |                       |                     |
| Net Investment in Capital Assets        | 9,494,488               | 8,241,537             | 1,252,951           |
| Restricted                              | 2,512,576               | 1,768,635             | 743,941             |
| Unrestricted                            | <u>(79,871,665)</u>     | <u>(83,711,575)</u>   | <u>3,839,910</u>    |
| <i>Total Net Position</i>               | <u>(\$67,864,601)</u>   | <u>(\$73,701,403)</u> | <u>\$5,836,802</u>  |

The net pension liability (NPL) is the largest single liability reported by the Service Center at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

## Educational Service Center of Cuyahoga County

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited*

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

GASB 68 requires the net pension liability to equal the Service Center's proportionate share of each plan's collective:

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

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

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

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

**Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2016*

*Unaudited*

Table 2 shows the change in net position for fiscal year 2016 as compared to fiscal year 2015.

(Table 2)  
Change in Net Position  
Governmental Activities

|  | 2016                         | 2015                         | Change                    |
|--|------------------------------|------------------------------|---------------------------|
| <b>Revenues</b>  |                              |                              |                           |
| <i>Program Revenues:</i>                                   |                              |                              |                           |
| Charges for Services and Sales                             | \$67,590,586                 | \$54,541,069                 | \$13,049,517              |
| Operating Grants and Contributions                         | 13,252,765                   | 11,884,304                   | 1,368,461                 |
| <i>Total Program Revenues</i>                              | <u>80,843,351</u>            | <u>66,425,373</u>            | <u>14,417,978</u>         |
| <i>General Revenues:</i>                                   |                              |                              |                           |
| Grants and Entitlements                                    | 7,004,747                    | 3,689,468                    | 3,315,279                 |
| Investment Earnings  | 123,108                      | 36,613                       | 86,495                    |
| Unrestricted Contributions and Donations                   | 2,251                        | 2,696                        | (445)                     |
| Miscellaneous  | 2,626,138                    | 2,338,653                    | 287,485                   |
| <i>Total General Revenues</i>                              | <u>9,756,244</u>             | <u>6,067,430</u>             | <u>3,688,814</u>          |
| <b>Total Revenues</b>                                      | <u>90,599,595</u>            | <u>72,492,803</u>            | <u>18,106,792</u>         |
| <b>Program Expenses</b>                                    |                              |                              |                           |
| Instruction  | 44,336,909                   | 37,561,807                   | (6,775,102)               |
| <i>Support Services:</i>                                   |                              |                              |                           |
| Pupil and Instructional Staff                              | 16,926,623                   | 12,713,777                   | (4,212,846)               |
| Board of Education, Administration,<br>Fiscal and Business | 15,239,317                   | 14,292,002                   | (947,315)                 |
| Operation and Maintenance of Plant                         | 2,494,780                    | 2,150,402                    | (344,378)                 |
| Pupil Transportation                                       | 17,320                       | 31,299                       | 13,979                    |
| Central  | 2,216,580                    | 1,415,498                    | (801,082)                 |
| Operation of Non-Instructional Services                    | 3,418,592                    | 2,744,139                    | (674,453)                 |
| Extracurricular Activities                                 | 43,014                       | 7,514                        | (35,500)                  |
| Interest and Fiscal Charges                                | 69,658                       | 71,027                       | 1,369                     |
| <i>Total Program Expenses</i>                              | <u>84,762,793</u>            | <u>70,987,465</u>            | <u>(13,775,328)</u>       |
| Increase (Decrease) in Net Position                        | 5,836,802                    | 1,505,338                    | 4,331,464                 |
| <i>Net Position Beginning of Year</i>                      | <u>(73,701,403)</u>          | <u>(75,206,741)</u>          | <u>1,505,338</u>          |
| <i>Net Position End of Year</i>                            | <u><u>(\$67,864,601)</u></u> | <u><u>(\$73,701,403)</u></u> | <u><u>\$5,836,802</u></u> |

**Governmental Activities**

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Service Center's concept of bringing its fiscal agencies under a common campus to align services, share resources and create economies of scale does work. A willingness to honestly assess programs and discontinue unprofitable ones is key to long term operations. Flexibility and adherence to basic management principles is key to continued successful operations.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The (\$3,919,442) *Net Cost of Services 2016* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net position to operate this fiscal year.

**Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited*

(Table 3)  
Governmental Activities

|  | Total Cost<br>of Services<br>2016 | Net Cost<br>of Services<br>2016 | Total Cost<br>of Services<br>2015 | Net Cost<br>of Services<br>2015 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction  | \$44,336,909                      | \$8,788,964                     | \$37,561,807                      | \$8,114,441                     |
| Support Services:  |                                   |                                 |                                   |                                 |
| Pupil and Instructional Staff                              | 16,926,623                        | 352,856                         | 12,713,777                        | 2,121,627                       |
| Board of Education, Administration,<br>Fiscal and Business | 15,239,317                        | (15,239,317)                    | 14,292,002                        | (14,292,002)                    |
| Operation and Maintenance of Plant                         | 2,494,780                         | 32,959                          | 2,150,402                         | (343,154)                       |
| Pupil Transportation                                       | 17,320                            | (593)                           | 31,299                            | (17,598)                        |
| Central  | 2,216,580                         | 773,194                         | 1,415,498                         | (922,612)                       |
| Operation of Non-Instructional Services                    | 3,418,592                         | 1,443,813                       | 2,744,139                         | 848,859                         |
| Extracurricular Activities                                 | 43,014                            | (1,660)                         | 7,514                             | (626)                           |
| Interest and Fiscal Charges                                | 69,658                            | (69,658)                        | 71,027                            | (71,027)                        |
| <i>Totals</i>  | <u>\$84,762,793</u>               | <u>(\$3,919,442)</u>            | <u>\$70,987,465</u>               | <u>(\$4,562,092)</u>            |

**The Service Center's Funds**

Information about the Service Center's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$90,338,219 and total expenditures of \$86,870,306, leaving a fund balance at fiscal year-end of \$14,227,905.

The general fund had an increase in fund balance of \$3,448,399. The title VI-B and miscellaneous federal grant special revenue funds had decreases in fund balance of \$117,350 and \$714,980 respectively. In comparison, all funds increased a total of \$3,612,254.

The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The downside to such a philosophy is that the Service Center will be an early barometer to cutbacks and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second-guessing the best management approach to riding out the downturn.

The Title VI-B special revenue fund had a decrease in fund balance of \$117,350. The decrease in fund balance is due to the timing of grant revenue from the Ohio Department of Education.

The Miscellaneous Federal Grants special revenue fund had a decrease in fund balance of \$714,980. The decrease in fund balance is due to the timing of grant revenue from the Ohio Department of Education and Ohio Department of Health.

## Educational Service Center of Cuyahoga County

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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### Capital Assets

Table 4 shows fiscal year 2016 balances compared to fiscal year 2015. More detailed information is presented in Note 9 of the notes to the basic financial statements.

(Table 4)  
Capital Assets at June 30  
(Net of Depreciation)

|                             | Governmental Activities |                     |
|-----------------------------|-------------------------|---------------------|
|                             | 2016                    | 2015                |
| Land                        | \$549,004               | \$549,004           |
| Buildings and Improvements  | 10,457,828              | 9,719,713           |
| Furniture and Equipment     | 827,146                 | 479,482             |
| <i>Total Capital Assets</i> | <u>\$11,833,978</u>     | <u>\$10,748,199</u> |

The increase in capital assets is mainly due to the renovation of office space at the administration building.

### Debt

At the end of fiscal year 2016, the outstanding balance on the Certificates of Participation was \$2,160,000. The Service Center issued Certificates of Participation for building improvements and improvements to the administration building parking lot. Capital leases outstanding amounted to \$179,490. The Service Center entered into a new lease for copiers in fiscal year 2016. More detailed information is presented in Notes 14 and 15 of the notes to the basic financial statements.

### Current Financial Related Activities

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and administration closely monitor its revenues and expenditures in accordance with Board policy.

Fiscal year 2016 was a good year from a service delivery standpoint although financially the Service Center suffered a deficit. The Service Center delivered valuable programs to its clients and school districts. Preserving school district relations is as critical as the finances.

Beginning July 1, 2015, the Service Center expanded its service footprint from thirty-one school districts located in Cuyahoga County to include an additional thirteen school districts located in Geauga, Lake, Portage and Summit Counties. As part of this expansion the Service Center has also begun to expand several of its key service and program areas, including personnel, substitute management, professional development, professional learning networks and technology.

## **Educational Service Center of Cuyahoga County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited*

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While many outside factors can and will affect the economy and base operations, the Service Center is committed to provide the best possible services and be fiscally responsible now and in future years. The Service Center is constantly evaluating its programs and expanding where it can provide cost effective services to school districts. Cost effective services to districts is the Service Center's guiding mission. If the Service Center does not provide efficiency, there is no reason for a district to contract with the Service Center. Trust, flexibility and responsiveness are key to the Service Center's success.

### **Contacting the Service Center's Financial Management**

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bruce Basalla, Treasurer at the Service Center, 6393 Oak Tree Boulevard., Independence, Ohio 44131.

# Educational Service Center of Cuyahoga County

## Statement of Net Position

June 30, 2016

|  | Governmental<br>Activities   |
|--|------------------------------|
| <b>Assets</b>                              |                              |
| Equity in Pooled Cash and Cash Equivalents | \$17,827,423                 |
| Accrued Interest Receivable                | 6,696                        |
| Accounts Receivable                        | 864,000                      |
| Intergovernmental Receivable               | 6,541,214                    |
| Nondepreciable Capital Assets              | 549,004                      |
| Depreciable Capital Assets, Net            | 11,284,974                   |
| <i>Total Assets</i>                        | <u>37,073,311</u>            |
| <b>Deferred Outflows of Resources</b>      |                              |
| Pension                                    | <u>18,690,099</u>            |
| <b>Liabilities</b>                         |                              |
| Accounts Payable                           | 390,324                      |
| Accrued Wages and Benefits                 | 4,302,610                    |
| Intergovernmental Payable                  | 720,637                      |
| Accrued Interest Payable                   | 5,058                        |
| Long-Term Liabilities:                     |                              |
| Due Within One Year                        | 1,633,252                    |
| Due In More Than One Year:                 |                              |
| Net Pension Liability (See Note 19)        | 107,484,533                  |
| Other Amounts Due in More Than One Year    | 2,389,908                    |
| <i>Total Liabilities</i>                   | <u>116,926,322</u>           |
| <b>Deferred Inflows of Resources</b>       |                              |
| Pension                                    | <u>6,701,689</u>             |
| <b>Net Position</b>                        |                              |
| Net Investment in Capital Assets           | 9,494,488                    |
| Restricted for:                            |                              |
| Capital Outlay                             | 299                          |
| Unclaimed Monies                           | 141,368                      |
| Other Purposes                             | 2,370,909                    |
| Unrestricted (Deficit)                     | <u>(79,871,665)</u>          |
| <i>Total Net Position</i>                  | <u><u>(\$67,864,601)</u></u> |

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2016*

|   | Program Revenues    |                                   |                                       | Net Revenue<br>(Expense) and<br>Changes in<br>Net Position |
|---|---------------------|-----------------------------------|---------------------------------------|--|
|   | Expenses            | Charges for<br>Services and Sales | Operating Grants<br>and Contributions | Governmental<br>Activities                                 |
| <b>Governmental Activities</b>                              |                     |                                   |                                       |  |
| Instruction:  |                     |                                   |                                       |  |
| Regular   | \$10,882,776        | \$9,722,584                       | \$298,300                             | (\$861,892)  |
| Special   | 33,040,924          | 41,721,436                        | 991,040                               | 9,671,552  |
| Vocational  | 397,804             | 377,442                           | 0                                     | (20,362)   |
| Student Intervention Services                               | 15,405              | 0                                 | 15,071                                | (334)  |
| Support Services:   |                     |                                   |                                       |  |
| Pupil   | 10,306,041          | 8,216,373                         | 2,010,336                             | (79,332)   |
| Instructional Staff   | 6,620,582           | 3,680,655                         | 3,372,115                             | 432,188  |
| Board of Education  | 67,122              | 0                                 | 0                                     | (67,122)   |
| Administration  | 13,325,494          | 0                                 | 0                                     | (13,325,494)   |
| Fiscal  | 1,780,502           | 0                                 | 0                                     | (1,780,502)  |
| Business  | 66,199              | 0                                 | 0                                     | (66,199)   |
| Operation and Maintenance of Plant                          | 2,494,780           | 2,527,739                         | 0                                     | 32,959   |
| Pupil Transportation  | 17,320              | 16,727                            | 0                                     | (593)  |
| Central   | 2,216,580           | 844,454                           | 2,145,320                             | 773,194  |
| Operation of Non-Instructional Services                     | 3,418,592           | 441,822                           | 4,420,583                             | 1,443,813  |
| Extracurricular Activities                                  | 43,014              | 41,354                            | 0                                     | (1,660)  |
| Interest and Fiscal Charges                                 | 69,658              | 0                                 | 0                                     | (69,658)   |
| <i>Totals</i>   | <u>\$84,762,793</u> | <u>\$67,590,586</u>               | <u>\$13,252,765</u>                   | <u>(3,919,442)</u>   |
| <b>General Revenues</b>                                     |                     |                                   |                                       |  |
| Grants and Entitlements not Restricted to Specific Programs |                     |                                   |                                       | 7,004,747  |
| Investment Earnings   |                     |                                   |                                       | 123,108  |
| Unrestricted Contributions and Donations                    |                     |                                   |                                       | 2,251  |
| Miscellaneous   |                     |                                   |                                       | <u>2,626,138</u>   |
| <i>Total General Revenues</i>                               |                     |                                   |                                       | <u>9,756,244</u>   |
| Change in Net Position                                      |                     |                                   |                                       | 5,836,802  |
| <i>Net Position Beginning of Year</i>                       |                     |                                   |                                       | <u>(73,701,403)</u>  |
| <i>Net Position End of Year</i>                             |                     |                                   |                                       | <u><u>(\$67,864,601)</u></u>                               |

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Balance Sheet*

*Governmental Funds*

*June 30, 2016*

|   | <u>General</u>      | <u>Title VI-B</u>  | <u>Miscellaneous<br/>Federal<br/>Grants</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|--------------------|---|---|---|
| <b>Assets</b>   |                     |                    |   |   |   |
| Equity in Pooled Cash and<br>Cash Equivalents                                 | \$12,904,987        | \$626,011          | \$138,542                                   | \$910,750                               | \$14,580,290                            |
| Receivables:  |                     |                    |   |   |   |
| Accrued Interest  | 6,696               | 0                  | 0   | 0                                       | 6,696                                   |
| Accounts  | 519,594             | 0                  | 1,526                                       | 342,880                                 | 864,000                                 |
| Intergovernmental   | 3,325,137           | 889,332            | 655,685                                     | 1,671,060                               | 6,541,214                               |
| Interfund Receivable  | 2,331,000           | 0                  | 0   | 0                                       | 2,331,000                               |
| Restricted Assets:  |                     |                    |   |   |   |
| Equity in Pooled Cash and<br>Cash Equivalents                                 | 141,368             | 0                  | 0   | 0                                       | 141,368                                 |
| <i>Total Assets</i>   | <u>\$19,228,782</u> | <u>\$1,515,343</u> | <u>\$795,753</u>                            | <u>\$2,924,690</u>                      | <u>\$24,464,568</u>                     |
| <b>Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b>       |                     |                    |   |   |   |
| <b>Liabilities</b>  |                     |                    |   |   |   |
| Accounts Payable  | \$108,946           | \$5,332            | \$5,443                                     | \$270,603                               | \$390,324                               |
| Accrued Wages and Benefits  | 3,946,116           | 172,005            | 29,480                                      | 155,009                                 | 4,302,610                               |
| Intergovernmental Payable   | 636,487             | 23,092             | 9,865                                       | 51,193                                  | 720,637                                 |
| Interfund Payable   | 0                   | 675,000            | 975,000                                     | 681,000                                 | 2,331,000                               |
| <i>Total Liabilities</i>  | <u>4,691,549</u>    | <u>875,429</u>     | <u>1,019,788</u>                            | <u>1,157,805</u>                        | <u>7,744,571</u>                        |
| <b>Deferred Inflows of Resources</b>  | <u>288,001</u>      | <u>889,332</u>     | <u>655,045</u>                              | <u>659,714</u>                          | <u>2,492,092</u>                        |
| <b>Fund Balances</b>  |                     |                    |   |   |   |
| Nonspendable  | 141,368             | 0                  | 0   | 0                                       | 141,368                                 |
| Restricted  | 0                   | 0                  | 0   | 1,288,710                               | 1,288,710                               |
| Assigned  | 6,357,615           | 0                  | 0   | 0                                       | 6,357,615                               |
| Unassigned (Deficit)  | 7,750,249           | (249,418)          | (879,080)                                   | (181,539)                               | 6,440,212                               |
| <i>Total Fund Balances (Deficit)</i>  | <u>14,249,232</u>   | <u>(249,418)</u>   | <u>(879,080)</u>                            | <u>1,107,171</u>                        | <u>14,227,905</u>                       |
| <i>Total Liabilities, Deferred Inflows<br/>of Resources and Fund Balances</i> | <u>\$19,228,782</u> | <u>\$1,515,343</u> | <u>\$795,753</u>                            | <u>\$2,924,690</u>                      | <u>\$24,464,568</u>                     |

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities*  
 June 30, 2016

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**Total Governmental Fund Balances**

*Amounts reported for governmental activities in the statement of net position are different because:* \$14,227,905

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 11,833,978

Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:

|                      |                  |                  |
|----------------------|------------------|------------------|
| Intergovernmental    | 2,204,091        |                  |
| Tuition and Fees     | 208,987          |                  |
| Charges for Services | 74,265           |                  |
| Miscellaneous        | 4,749            |                  |
| <b>Total</b>         | <b>2,492,092</b> | <b>2,492,092</b> |

The internal service fund is used by management to charge the costs of medical insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position:

|                |                  |                  |
|----------------|------------------|------------------|
| Net Position   | 2,806,765        |                  |
| Claims Payable | 299,000          |                  |
| <b>Total</b>   | <b>3,105,765</b> | <b>3,105,765</b> |

In the statement of net position, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (5,058)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Certificates of Participation | (2,160,000)        |                    |
| Capital Leases                | (179,490)          |                    |
| Compensated Absences          | (1,384,670)        |                    |
| Claims Payable                | (299,000)          |                    |
| <b>Total</b>                  | <b>(4,023,160)</b> | <b>(4,023,160)</b> |

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

|                             |                     |                     |
|-----------------------------|---------------------|---------------------|
| Deferred Outflows - Pension | 18,690,099          |                     |
| Net Pension Liability       | (107,484,533)       |                     |
| Deferred Inflows - Pension  | (6,701,689)         |                     |
| <b>Total</b>                | <b>(95,496,123)</b> | <b>(95,496,123)</b> |

*Net Position of Governmental Activities* (\$67,864,601)

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

|   | General             | Title VI-B         | Miscellaneous<br>Federal<br>Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------|------------------------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>   |                     |                    |                                    |                                |                                |
| Intergovernmental                                       | \$7,370,409         | \$2,776,759        | \$958,777                          | \$6,357,719                    | \$17,463,664                   |
| Interest  | 123,108             | 0                  | 0                                  | 0                              | 123,108                        |
| Tuition and Fees  | 32,862,818          | 0                  | 0                                  | 0                              | 32,862,818                     |
| Rentals   | 1,033,163           | 0                  | 0                                  | 250                            | 1,033,413                      |
| Charges for Services                                    | 32,527,521          | 0                  | 0                                  | 1,246,685                      | 33,774,206                     |
| Contributions and Donations                             | 2,251               | 0                  | 0                                  | 2,452,621                      | 2,454,872                      |
| Miscellaneous   | 1,862,572           | 0                  | 0                                  | 763,566                        | 2,626,138                      |
| <i>Total Revenues</i>                                   | <u>75,781,842</u>   | <u>2,776,759</u>   | <u>958,777</u>                     | <u>10,820,841</u>              | <u>90,338,219</u>              |
| <b>Expenditures</b>                                     |                     |                    |                                    |                                |                                |
| Current:  |                     |                    |                                    |                                |                                |
| Instruction:  |                     |                    |                                    |                                |                                |
| Regular   | 10,703,548          | 0                  | 0                                  | 387,094                        | 11,090,642                     |
| Special   | 33,329,257          | 331,805            | 0                                  | 231,382                        | 33,892,444                     |
| Vocational  | 407,351             | 0                  | 0                                  | 0                              | 407,351                        |
| Student Intervention Services                           | 0                   | 0                  | 0                                  | 15,713                         | 15,713                         |
| Support Services:                                       |                     |                    |                                    |                                |                                |
| Pupil   | 8,034,205           | 40,744             | 1,552,813                          | 766,847                        | 10,394,609                     |
| Instructional Staff                                     | 3,945,810           | 1,643,181          | 84,975                             | 955,767                        | 6,629,733                      |
| Board of Education                                      | 68,464              | 0                  | 0                                  | 0                              | 68,464                         |
| Administration  | 10,704,129          | 433,312            | 0                                  | 2,280,633                      | 13,418,074                     |
| Fiscal  | 1,679,000           | 63,052             | 7,783                              | 73,021                         | 1,822,856                      |
| Business  | 68,606              | 0                  | 0                                  | 278                            | 68,884                         |
| Operation and Maintenance of Plant                      | 2,396,527           | 154,783            | 0                                  | 0                              | 2,551,310                      |
| Pupil Transportation                                    | 18,139              | 0                  | 0                                  | 0                              | 18,139                         |
| Central   | 739,899             | 0                  | 0                                  | 1,530,824                      | 2,270,723                      |
| Operation of Non-Instructional Services                 | 52,547              | 254,686            | 28,186                             | 3,176,579                      | 3,511,998                      |
| Extracurricular Activities                              | 44,846              | 0                  | 0                                  | 0                              | 44,846                         |
| Capital Outlay  | 218,904             | 0                  | 0                                  | 63,788                         | 282,692                        |
| Debt Service:   |                     |                    |                                    |                                |                                |
| Principal Retirement                                    | 25,548              | 5,965              | 0                                  | 280,000                        | 311,513                        |
| Interest and Fiscal Charges                             | 4,603               | 1,075              | 0                                  | 64,637                         | 70,315                         |
| <i>Total Expenditures</i>                               | <u>72,441,383</u>   | <u>2,928,603</u>   | <u>1,673,757</u>                   | <u>9,826,563</u>               | <u>86,870,306</u>              |
| <i>Excess of Revenues Over<br/>(Under) Expenditures</i> | <u>3,340,459</u>    | <u>(151,844)</u>   | <u>(714,980)</u>                   | <u>994,278</u>                 | <u>3,467,913</u>               |
| <b>Other Financing Sources</b>                          |                     |                    |                                    |                                |                                |
| Inception of Capital Lease                              | 117,017             | 27,324             | 0                                  | 0                              | 144,341                        |
| Transfer In   | 0                   | 7,170              | 0                                  | 1,907                          | 9,077                          |
| Transfer Out  | (9,077)             | 0                  | 0                                  | 0                              | (9,077)                        |
| <i>Total Other Financing Sources</i>                    | <u>107,940</u>      | <u>34,494</u>      | <u>0</u>                           | <u>1,907</u>                   | <u>144,341</u>                 |
| <i>Net Change in Fund Balances</i>                      | 3,448,399           | (117,350)          | (714,980)                          | 996,185                        | 3,612,254                      |
| <i>Fund Balances (Deficit) Beginning of Year</i>        | <u>10,800,833</u>   | <u>(132,068)</u>   | <u>(164,100)</u>                   | <u>110,986</u>                 | <u>10,615,651</u>              |
| <i>Fund Balances (Deficit) End of Year</i>              | <u>\$14,249,232</u> | <u>(\$249,418)</u> | <u>(\$879,080)</u>                 | <u>\$1,107,171</u>             | <u>\$14,227,905</u>            |

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

**Net Change in Fund Balances - Total Governmental Funds**

*Amounts reported for governmental activities in the statement of activities are different because:* \$3,612,254

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

|                           |           |           |
|---------------------------|-----------|-----------|
| Capital Asset Additions   | 1,437,991 |           |
| Current Year Depreciation | (347,431) |           |
| Total                     | 1,090,560 | 1,090,560 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,781)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

|                      |           |         |
|----------------------|-----------|---------|
| Intergovernmental    | 341,227   |         |
| Tuition and Fees     | 35,541    |         |
| Rentals              | (125)     |         |
| Charges for Services | (115,267) |         |
| Miscellaneous        | (4,427)   |         |
| Total                | 256,949   | 256,949 |

Other financing sources, such as capital leases issued, in the governmental funds that increases long-term liabilities in the statement of net position are not reported as revenues in the statement of activities. (144,341)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 311,513

In the governmental funds, interest is expensed when due, whereas interest is accrued in the statement of net position and is not reported as an expense in the statement of activities. 657

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (142,166)

The internal service fund used by management is not reported in the Service Center statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 540,674

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 7,544,434

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (7,228,951)

*Change in Net Position of Governmental Activities* \$5,836,802

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Fund Net Position*

*Internal Service Fund*

*June 30, 2016*

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|  | <u>Internal Service</u> |
|--|-------------------------|
| <b>Assets</b>                              |                         |
| Equity in Pooled Cash and Cash Equivalents | <u>\$3,105,765</u>      |
| <b>Liabilities</b>                         |                         |
| Claims Payable                             | <u>299,000</u>          |
| <b>Net Position</b>                        |                         |
| Unrestricted                               | <u>\$2,806,765</u>      |

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Revenues,*

*Expenses and Changes in Fund Net Position*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2016*

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|                                       | <u>Internal Service</u>   |
|---------------------------------------|---------------------------|
| <b>Operating Revenues</b>             |                           |
| Charges for Services                  | <u>\$6,560,599</u>        |
| <b>Operating Expenses</b>             |                           |
| Purchased Services                    | 2,299,658                 |
| Claims                                | <u>3,720,267</u>          |
| <i>Total Operating Expenses</i>       | <u>6,019,925</u>          |
| <i>Change in Net Position</i>         | 540,674                   |
| <i>Net Position Beginning of Year</i> | <u>2,266,091</u>          |
| <i>Net Position End of Year</i>       | <u><u>\$2,806,765</u></u> |

See accompanying notes to the basic financial statements

**Educational Service Center of Cuyahoga County**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2016*

|  | <u>Internal Service</u>   |
|--|---------------------------|
| <b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>                               |                           |
| <b>Cash Flows from Operating Activities</b>  |                           |
| Cash Received from Interfund Services Provided   | \$6,560,599               |
| Cash Payments for Claims   | (3,756,267)               |
| Cash Payments for Services   | <u>(2,299,658)</u>        |
| <i>Net Decrease in Cash and Cash Equivalents</i>   | 504,674                   |
| <i>Cash and Cash Equivalents Beginning of Year</i>   | <u>2,601,091</u>          |
| <i>Cash and Cash Equivalents End of Year</i>   | <u><u>\$3,105,765</u></u> |
| <b><i>Reconciliation of Operating Loss to<br/>Net Cash Used for Operating Activities</i></b> |                           |
| <i>Operating Income</i>  | \$540,674                 |
| <b>Adjustments</b>   |                           |
| Decrease in Current Liabilities  |                           |
| Claims Payable   | <u>(36,000)</u>           |
| <i>Net Cash Provided by Operating Activities</i>   | <u><u>\$504,674</u></u>   |
| See accompanying notes to the basic financial statements                                     |                           |

**Educational Service Center of Cuyahoga County**

*Statement of Fiduciary Assets and Liabilities*

*Agency Funds*

*June 30, 2016*

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| <b>Assets</b>                              |                         |
|--|-------------------------|
| Equity in Pooled Cash and Cash Equivalents | \$493,013               |
| Accounts Receivable                        | 23,856                  |
| Intergovernmental Receivable               | <u>1,346</u>            |
| <i>Total Assets</i>                        | <u><u>\$518,215</u></u> |
| <br>                                       |                         |
| <b>Liabilities</b>                         |                         |
| Accounts Payable                           | \$21,713                |
| Undistributed Monies                       | <u>496,502</u>          |
| <i>Total Liabilities</i>                   | <u><u>\$518,215</u></u> |

See accompanying notes to the basic financial statements

# **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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## **Note 1 – Description of the Service Center**

In 1914, the Educational Service Center of Cuyahoga County (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts in Cuyahoga, Lake, Lorain and Geauga Counties.

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, to three local and forty-one city school districts and two career centers. The Board controls the Service Center's staff who provide services that impact 400,000 plus students 0 to 18 years of age attending numerous school districts. The Service Center's special education services also draw students from school districts throughout northeast Ohio, sometimes from as far away as Toledo and Columbus.

### ***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Service Center. For the Service Center, this includes the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Service Center.

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

The Service Center participates in three jointly governed organizations and one risk sharing pool. These organizations are Connect, North Coast Educational Media Center, Positive Education Program and the Portage Area School Consortium. These organizations are presented in Notes 16 and 17 in the notes to the basic financial statements.

## **Note 2 – Summary of Significant Accounting Policies**

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

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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### ***Basis of Presentation***

The Service Center's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Service Center, however, has only governmental activities.

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

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

### ***Fund Accounting***

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

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

***General Fund*** The general fund is the operating fund of the Service Center and is used to account for and report all financial resources except those required to be accounted for and reported in another fund.

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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***Title VI-B Fund*** The title VI-B special revenue fund accounts for and reports restricted Federal grant monies used to assist schools in the identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

***Miscellaneous Federal Grants Fund*** The miscellaneous federal grants special revenue fund accounts for and reports various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

The other governmental funds of the Service Center account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

***Proprietary Fund Type*** Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The Service Center only has one internal service fund.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost-reimbursement basis. The internal service fund accounts for payments, administrative costs and reserves of the Service Center's self-insured medical coverage.

***Fiduciary Fund Type*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds report resources that belong to other organizations.

### ***Measurement Focus***

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

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

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016*

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Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The statement of cash flows provides information about how the Service Center finances and meets the cash flow needs of its internal service fund.

### ***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: intergovernmental, interest, tuition and fees, rentals, charges for services, extracurricular activities and contributions and donations.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 19.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Service Center, deferred inflows of resources include unavailable revenue and pension. Unavailable revenue is

## Educational Service Center of Cuyahoga County

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016*

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reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Service Center, unavailable revenue includes intergovernmental, tuition and fees, rentals, charges for services and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to the Net Position of Governmental Activities on page 16. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 19).

#### ***Pensions***

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

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

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

#### ***Cash and Cash Equivalents***

To improve cash management, cash received by the Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2016, investments were limited to federal home loan mortgage corporation notes, federal national mortgage association notes and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price or current share.

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

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016*

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Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$123,108, which includes \$12,952 assigned from other Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

### ***Restricted Assets***

Assets are reported as restricted when limitations on the use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or law of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund represent money required by State statute to be set aside for unclaimed monies.

### ***Capital Assets***

The only capital assets of the Service Center are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the governmental-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Service Center maintains a capitalization threshold of five hundred dollars. The Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u>      | <u>Estimated Lives</u> |
|-------------------------|------------------------|
| Buildings               | 75 years               |
| Building Improvements   | 15 years               |
| Furniture and Equipment | 5-20 years             |

### ***Interfund Balances***

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the governmental activities column of the statement of net position.

## **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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### ***Compensated Absences***

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

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

### ***Accrued Liabilities and Long-Term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for the payment during the current fiscal year.

### ***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include Help Me Grow and various local grants.

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

### ***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the Service Center 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 category includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

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

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the Service Center Governing Board. In the general fund, assigned amounts represent intended uses established by policies and authorized purchase commitments by the Service Center Governing Board or Service Center official delegated that authority by resolution or by State Statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Governing Board assigned fund balance for the positive education programs.

**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 used only to report a deficit balance.

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

### ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

### ***Estimates***

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

## Educational Service Center of Cuyahoga County

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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#### **Note 3 – Change in Accounting Principle**

For fiscal year 2016, the Service Center implemented Governmental Accounting Standards Board (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,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the Service Center’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the Service Center’s financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the Service Center’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The Service Centers participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The Service Center incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Service Center’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

#### **Note 4 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

| Fund Balances                               | General             | Title VI-B         | Miscellaneous<br>Federal Grants | Other<br>Governmental<br>Funds | Total               |
|---|---------------------|--------------------|---------------------------------|--------------------------------|---------------------|
| <b><i>Nonspendable</i></b>                  |                     |                    |                                 |                                |                     |
| Unclaimed Monies                            | \$141,368           | \$0                | \$0                             | \$0                            | \$141,368           |
| <b><i>Restricted for</i></b>                |                     |                    |                                 |                                |                     |
| Help Me Grow                                | 0                   | 0                  | 0                               | 745,077                        | 745,077             |
| Various Local Grants                        | 0                   | 0                  | 0                               | 543,334                        | 543,334             |
| Capital Improvements                        | 0                   | 0                  | 0                               | 299                            | 299                 |
| <b><i>Total Restricted</i></b>              | <b>0</b>            | <b>0</b>           | <b>0</b>                        | <b>1,288,710</b>               | <b>1,288,710</b>    |
| <b><i>Assigned to</i></b>                   |                     |                    |                                 |                                |                     |
| Positive Education Programs                 | 5,105,585           | 0                  | 0                               | 0                              | 5,105,585           |
| Purchases on Order:                         |                     |                    |                                 |                                |                     |
| Instructional Services                      | 162,228             | 0                  | 0                               | 0                              | 162,228             |
| Support Services                            | 1,089,802           | 0                  | 0                               | 0                              | 1,089,802           |
| <b><i>Total Assigned</i></b>                | <b>6,357,615</b>    | <b>0</b>           | <b>0</b>                        | <b>0</b>                       | <b>6,357,615</b>    |
| <b><i>Unassigned (Deficit)</i></b>          | <b>7,750,249</b>    | <b>(249,418)</b>   | <b>(879,080)</b>                | <b>(181,539)</b>               | <b>6,440,212</b>    |
| <b><i>Total Fund Balances (Deficit)</i></b> | <b>\$14,249,232</b> | <b>(\$249,418)</b> | <b>(\$879,080)</b>              | <b>\$1,107,171</b>             | <b>\$14,227,905</b> |

### Note 5 – Fund Deficits

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

|                               |           |
|-------------------------------|-----------|
| <i>Special Revenue Funds:</i> |           |
| Title VI-B                    | \$249,418 |
| Miscellaneous Federal Grants  | 879,080   |
| Straight A                    | 23,050    |
| Peer Assistance               | 136,785   |
| Race to the Top               | 713       |
| Preschool Disabilities        | 6,614     |
| Improving Teacher Quality     | 14,377    |

These deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

### Note 6 – Deposits and Investments

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

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

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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Inactive deposits are public deposits that the 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 held by the Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### ***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$12,972,859 of the Service Center's bank balance of \$18,320,436 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Service Center to a successful claim by the FDIC.

## Educational Service Center of Cuyahoga County

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016*

The Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

#### ***Investments***

Investments are reported at fair value. As of June 30, 2016, the Service Center had the following investments.

| Measurement/Investment                       | Fair Value                | Maturity             | Standard & Poor's Rating | Percentage of Total Investments |
|--|---------------------------|----------------------|--------------------------|---------------------------------|
| Fair Value:                                  |                           |                      |                          |                                 |
| Federal Home Loan Mortgage Corporation Notes | \$501,540                 | Less than five years | AA+                      | 33.98 %                         |
| Federal National Mortgage Association Notes  | 501,500                   | Less than five years | AA+                      | 33.97                           |
| Net Asset Value Per Share:                   |                           |                      |                          |                                 |
| STAR Ohio                                    | <u>10,900</u>             | Average 48.6 Days    | AAAm                     | N/A                             |
| Total  | <u><u>\$1,013,940</u></u> |                      |                          |                                 |

The Service Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Service Center's recurring fair value measurements as of June 30, 2016. All of the Service Center's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

***Interest Rate Risk*** The Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

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

***Concentration of Credit Risk*** The Service Center places no limit on the amount it may invest in any one issuer.

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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### Note 7 – Receivables

Receivables at June 30, 2016, consisted of accounts, accrued interest and intergovernmental grants. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

| <b>Governmental Activities</b>       | <b>Amounts</b>     |
|--------------------------------------|--------------------|
| Positive Education Program           | \$3,325,137        |
| Local Grants                         | 1,003,969          |
| Title VI-B Grant                     | 889,332            |
| Miscellaneous Federal Grants         | 655,685            |
| Peer Assistance Grant                | 351,720            |
| Straight A                           | 127,929            |
| Refugee Children School Impact Grant | 72,397             |
| Title III Grant                      | 53,115             |
| Preschool Disabilities Grant         | 32,237             |
| Improving Teacher Quality Grant      | 29,693             |
| <b>Total</b>                         | <b>\$6,541,214</b> |

### Note 8 – State Funding

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

The Service Center also receives funding from the State Department of Education in the amount of \$35 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Service Center.

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

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

### Note 9 – Capital Assets

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

|  | Balance<br>6/30/15  | Additions          | Deletions        | Balance<br>6/30/16  |
|--|---------------------|--------------------|------------------|---------------------|
| <b>Governmental Activities</b>                 |                     |                    |                  |                     |
| <i>Capital Assets, not being depreciated:</i>  |                     |                    |                  |                     |
| Land   | \$549,004           | \$0                | \$0              | \$549,004           |
| <i>Capital Assets, being depreciated:</i>      |                     |                    |                  |                     |
| Buildings and Improvements                     | 10,378,680          | 848,837            | 0                | 11,227,517          |
| Furniture and Equipment                        | 1,201,557           | 589,154            | (135,128)        | 1,655,583           |
| <i>Total Capital Assets, being depreciated</i> | <u>11,580,237</u>   | <u>1,437,991</u>   | <u>(135,128)</u> | <u>12,883,100</u>   |
| Less Accumulated Depreciation                  |                     |                    |                  |                     |
| Buildings and Improvements                     | (658,967)           | (110,722)          | 0                | (769,689)           |
| Furniture and Equipment                        | (722,075)           | (236,709)          | 130,347          | (828,437)           |
| Total Accumulated Depreciation                 | <u>(1,381,042)</u>  | <u>(347,431) *</u> | <u>130,347</u>   | <u>(1,598,126)</u>  |
| Total Capital Assets, being depreciated, net   | <u>10,199,195</u>   | <u>1,090,560</u>   | <u>(4,781)</u>   | <u>11,284,974</u>   |
| Governmental Activities Capital Assets, Net    | <u>\$10,748,199</u> | <u>\$1,090,560</u> | <u>(\$4,781)</u> | <u>\$11,833,978</u> |

\*Depreciation expense was charged to governmental functions as follows:

|   |                  |
|---|------------------|
| Instruction:                            |                  |
| Regular                                 | \$5,093          |
| Special                                 | 14,979           |
| Support Services:                       |                  |
| Pupil                                   | 18,240           |
| Instructional Staff                     | 60,837           |
| Administration                          | 228,174          |
| Fiscal                                  | 8,993            |
| Central                                 | 2,527            |
| Operation of Non-Instructional Services | 2,035            |
| Extracurricular Activities              | 570              |
| Building Acquisition                    | 5,983            |
| Total Depreciation Expense              | <u>\$347,431</u> |

## Educational Service Center of Cuyahoga County

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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### Note 10 – Interfund Transactions

#### *Interfund Balances*

Interfund balances at June 30, 2016, consist of the following individual fund receivables and payables:

| Interfund Payable               | Receivable<br>General     |
|---------------------------------|---------------------------|
| <i>Governmental Activities</i>  |                           |
| Major Fund:                     |                           |
| Title VI-B                      | \$675,000                 |
| Miscellaneous Federal Grants    | 975,000                   |
| Other Governmental Funds:       |                           |
| Straight A                      | 125,000                   |
| Peer Assistance                 | 255,000                   |
| Improving Teacher Quality       | 83,000                    |
| Race to the Top                 | 78,000                    |
| Preschool Disabilities          | 25,000                    |
| Title I                         | 35,000                    |
| Title III                       | 80,000                    |
| <i>Total Governmental Funds</i> | <u><u>\$2,331,000</u></u> |

The interfund payables are advances for grant monies that were not received by fiscal year end. The Service Center expects to receive the grant monies and repay the loans within the next fiscal year.

#### *Transfers*

The general fund made transfers to the title VI-B grants fund and other governmental funds in the amounts of \$7,170 and \$1,907, respectively to move unrestricted balances to support programs and projects accounted for in other funds.

### Note 11 – Other Employee Benefits

#### *Compensated Absences*

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Vacation is paid upon separation. All employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all employees.

Upon retirement, classified employees who have at least ten years of service credit with the State (the last ten years with the Service Center) are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days. Certified employees, administrators and supervisors who have at least ten years of service credit with the State (the last five years with the Service Center), are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days.

# Educational Service Center of Cuyahoga County

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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### *Life Insurance*

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees who work over 20 hours in a week through the Met Life Insurance Company for in county employees and Guardian for out of county employees.

### *Other Employer Health Benefits*

The Service Center provides prescription drug coverage through Healthspan, Anthem Blue Cross and Blue Shield, and CIGNA to all in county eligible employees. Vision insurance for in county employees is provided through Anthem Blue Cross and Blue Shield, and dental insurance is provided through MetLife. The Service Center provides prescription drug coverage and vision through Medical Mutual to all out of county eligible employees. Dental insurance for out of county employees is provided through Guardian.

## **Note 12 – Risk Management**

### *Property and Liability*

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the Service Center contracted with the Catlin Indemnity Company for the following insurance:

| Type                                      | Amount      |
|---|-------------|
| General Liability:                        |             |
| Bodily Injury (Aggregate Limit)           | \$1,000,000 |
| Personal Injury/Advertising Liability     | 1,000,000   |
| Products/Completed Operations             | 2,000,000   |
| General Annual Aggregate                  | 2,000,000   |
| Fire Legal Liability                      | 500,000     |
| Sexual Misconduct & Molestation Liability | 1,000,000   |
| Medical Expense Limit                     | 15,000      |
| Property:                                 |             |
| Blanket Building and Contents             | 12,716,719  |
| Educators' Legal Liability:               |             |
| Errors or Omissions Coverage              | 1,000,000   |
| Automobile Liability:                     |             |
| Bodily Injury and Property Damage         | 1,000,000   |

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

### *Workers' Compensation*

The Service Center pays a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sheakley UniServices, Incorporated provides administrative, cost control and actuarial services to the Service Center.

# Educational Service Center of Cuyahoga County

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

### Employee Health Benefits

The Service Center is self-insured for medical insurance for in county employees. CIGNA, the third party administrator of the program, processes the claims for the Service Center's medical program. Monthly funding rates for medical insurance are \$2,316.44 for family coverage and \$782.58 for single coverage. The Service Center has stop loss coverage per family per year and a calculated aggregate maximum stop loss coverage for the 2016 plan year (July through June) that begins at \$5,948,795.

The claims liability of \$299,000 reported in the self insurance fund at June 30, 2016 for employee medical coverage was estimated by an independent health actuary and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for fiscal years 2015 and 2016 are as follows:

|      | <u>Balance at<br/>Beginning of Year</u> | <u>Current Year<br/>Claims</u> | <u>Claim<br/>Payments</u> | <u>Balance at<br/>End of Year</u> |
|------|---|--------------------------------|---------------------------|-----------------------------------|
| 2015 | \$408,000                               | \$4,401,376                    | \$4,474,376               | \$335,000                         |
| 2016 | 335,000                                 | 3,720,267                      | 3,756,267                 | 299,000                           |

For health insurance for out of county employees, the Service Center has joined the Portage Area School Consortium (the "Consortium"), a risk sharing pool (see Note 17), through which a cooperative Health Benefit Program was created for the benefits of its members. The Health Benefit Program (the "Program") is an employee health benefit plan which covers the participating members' employees. The Consortium acts as a fiscal agent for the cash funds paid into the program by the participating school districts. These funds are pooled together for the purposes of paying health benefit claims of employees and their covered dependents, administrative expenses of the program and premiums for stop-loss insurance coverage. A reserve exists which is to cover any unpaid claims if the Service Center were to withdraw from the pool. If the reserve would not cover such claims, the Service Center would be liable for any costs above the reserve

### Note 13 - Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

|                              |                    |
|------------------------------|--------------------|
| General                      | \$1,280,435        |
| Title VI-B                   | 194,339            |
| Miscellaneous Federal Grants | 48,488             |
| Other Governmental Funds     | <u>1,133,056</u>   |
| Total                        | <u>\$2,656,318</u> |

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

### Note 14 – Long-Term Obligations

The changes in the Service Center’s long-term obligations during fiscal year 2016 were as follows:

|  | Outstanding<br>June 30, 2015 | Additions                  | Deductions                | Outstanding<br>June 30, 2016 | Due Within<br>One Year    |
|--|------------------------------|----------------------------|---------------------------|------------------------------|---------------------------|
| <b>Certificates of Participation:</b>      |                              |                            |                           |                              |                           |
| 2013 Certificates of Participation         | \$2,145,000                  | \$0                        | \$245,000                 | \$1,900,000                  | \$250,000                 |
| 2014 Certificates of Participation         | 295,000                      | 0                          | 35,000                    | 260,000                      | 35,000                    |
| <i>Total Certificates of Participation</i> | <u>2,440,000</u>             | <u>0</u>                   | <u>280,000</u>            | <u>2,160,000</u>             | <u>285,000</u>            |
| <b>Other Long-term Obligations:</b>        |                              |                            |                           |                              |                           |
| <b>Net Pension Liability:</b>              |                              |                            |                           |                              |                           |
| SERS                                       | 30,167,099                   | 3,482,602                  | 0                         | 33,649,701                   | 0                         |
| STRS                                       | 57,249,575                   | 16,585,257                 | 0                         | 73,834,832                   | 0                         |
| Total Net Pension Liability                | <u>87,416,674</u>            | <u>20,067,859</u>          | <u>0</u>                  | <u>107,484,533</u>           | <u>0</u>                  |
| Claims Payable                             | 335,000                      | 3,720,267                  | 3,756,267                 | 299,000                      | 299,000                   |
| Capital Leases                             | 66,662                       | 144,341                    | 31,513                    | 179,490                      | 46,285                    |
| Compensated Absences                       | 1,242,504                    | 984,348                    | 842,182                   | 1,384,670                    | 1,002,967                 |
| <i>Total Other Long-term Obligations</i>   | <u>89,060,840</u>            | <u>24,916,815</u>          | <u>4,629,962</u>          | <u>109,347,693</u>           | <u>1,348,252</u>          |
| <b>Total</b>                               | <u><u>\$91,500,840</u></u>   | <u><u>\$24,916,815</u></u> | <u><u>\$4,909,962</u></u> | <u><u>\$111,507,693</u></u>  | <u><u>\$1,633,252</u></u> |

On May 22, 2013, the Service Center issued \$2,500,000 in certificates of participation for the purpose of various school improvements. The certificates were issued for a ten year period with a final maturity on December 1, 2022. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the Service Center. The COPs were issued through a series of annual leases with an initial lease term of five years with includes the right to renew for 15 successive one-year terms through fiscal year 2023 subject to annual appropriations. To satisfy the trustee agreements, the Service Center is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 2.75 percent. The Service Center has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture.

On September 24, 2014, the Service Center issued \$300,000 in certificates of participation for the purpose of expanding the Service Center parking lot. The lease certificates have a maturity date of December 1, 2023. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the Service Center. The COPs were issued through a series of annual leases with an initial lease term of five years with includes the right to renew for 15 successive one-year terms through fiscal year 2024 subject to annual appropriations. To satisfy the trustee agreements, the Service Center is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 3.25 percent. The Service Center has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture.

## Educational Service Center of Cuyahoga County

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

Principal and interest requirements to retire the Certificates of Participation outstanding at June 30, 2016 are as follows:

| Fiscal Year<br>Ending June 30 | Certificates of Participation |                  |
|-------------------------------|-------------------------------|------------------|
|                               | Principal                     | Interest         |
| 2017                          | \$285,000                     | \$56,693         |
| 2018                          | 290,000                       | 48,613           |
| 2019                          | 300,000                       | 40,325           |
| 2020                          | 305,000                       | 31,831           |
| 2021                          | 320,000                       | 23,050           |
| 2022-2023                     | 660,000                       | 18,687           |
| Total                         | <u>\$2,160,000</u>            | <u>\$219,199</u> |

The certificates of participation will be paid from the general fund. The claims payable will be paid from the employee benefits self insurance fund. The capital leases will be paid from the general fund and title VI-B special revenue fund. Compensated absences will be paid from the general fund, and the local grants and title VI-B special revenue funds. The Service Center pays obligations related to employee compensation from the fund benefiting from their service. For additional information related to pension see Note 19.

#### Note 15 – Capital Leases

The Service Center has entered into capitalized leases for copiers. The leases meet the criteria for capital leases. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

The assets acquired through the capital leases are as follows:

|                                      |                  |
|--------------------------------------|------------------|
| Assets:                              |                  |
| Copiers                              | \$544,701        |
| Less: Accumulated Depreciation       | <u>(113,944)</u> |
| Total Book Value as of June 30, 2016 | <u>\$430,757</u> |

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

| Fiscal Year<br>Ended June 30            | Governmental<br>Activities |
|---|----------------------------|
| 2017                                    | \$53,300                   |
| 2018                                    | 53,300                     |
| 2019                                    | 41,001                     |
| 2020                                    | 32,217                     |
| 2021                                    | <u>16,109</u>              |
| Total Minimum Lease Payments            | 195,927                    |
| Less: Amounts Representing Interest     | <u>(16,437)</u>            |
| Present Value of Minimum Lease Payments | <u>\$179,490</u>           |

## **Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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### **Note 16 – Jointly Governed Organizations**

#### ***Connect***

Connect is a jointly governed organization among sixteen school districts located in Cuyahoga County and Lorain County and the Service Center. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports Connect based on a per pupil charge. The Service Center contributed \$115,816 to Connect during the fiscal year 2016.

The Governing Board consists of superintendents of each participating school district and the Service Center. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of Connect's financial statements, write to the Service Center at 6393 Oak Tree Boulevard., Independence, Ohio 44131.

#### ***North Coast Educational Media Center (Media Center)***

The Media Center is a jointly governed organization among seventeen school districts and the Service Center. The jointly governed organization was formed for the purpose of providing media services to the participants. Each of the districts supports the Media Center based on a per pupil charge. The Media Center is a jointly governed organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The Service Center did not make any contributions to the Media Center in the fiscal year 2016.

The Governing Board consists of a representative of each participating school district. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of the Media Center's financial statements, write to the Service Center at 6393 Oak Tree Boulevard., Independence, Ohio 44131.

#### ***Positive Education Program (PEP)***

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center did not make any contributions to the PEP in fiscal year 2016. PEP's twelve member governing board consists of: three superintendents elected from the participating school districts, three attorneys, one representative of the business community, one representative of the education community, and four consumers. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the PEP's financial statements, write to the Positive Education Program at 3100 Euclid Avenue, Cleveland, Ohio 44115-2508.

# Educational Service Center of Cuyahoga County

## *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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### **Note 17 – Risk Sharing Pool**

The Portage Area School Consortium (the “Consortium”) was established in 1981 so that 12 educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverage as a group. The Health and Welfare Trust is organized under the provisions of Section 501(c)(9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The Service Center pays all insurance premiums directly to the consortium. Also, the insurance agreement with Portage County School Consortium provides that the Consortium will reinsure through commercial companies for claims over \$150,000 per employee. Although the Service Center does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium’s governing Board as provided in the Consortium’s enabling authority. The Portage County Educational Service Center acts as the fiscal agent for the consortium. To obtain financial information, write to the Portage Area School Consortium, Todd Carpenter, who serves as Treasurer, at 1464 Industry Road, Atwater, Ohio 44201

### **Note 18 – Contingencies**

#### ***Grants***

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2016, if applicable, cannot be determined at this time.

#### ***School Foundation***

Service Center funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional service centers must comply with minimum hours of instruction, instead of minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Service Center, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Service Center.

#### ***Litigation***

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2016.

## Educational Service Center of Cuyahoga County

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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### **Note 19 - Defined Benefit Pension Plans**

#### ***Net Pension Liability***

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

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

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

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

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

#### ***Plan Description - School Employees Retirement System (SERS)***

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

# Educational Service Center of Cuyahoga County

## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The Service Center's contractually required contribution to SERS was \$2,909,657 for fiscal year 2016. Of this amount \$189,035 is reported as an intergovernmental payable.

### ***Plan Description - State Teachers Retirement System (STRS)***

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

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The Service Center 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 Service Center's contractually required contribution to STRS was \$4,634,777 for fiscal year 2016. Of this amount \$321,416 is reported as an intergovernmental payable.

**Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

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

|   | <u>SERS</u>         | <u>STRS</u>        | <u>Total</u>  |
|---|---------------------|--------------------|---------------|
| Proportion of the Net Pension Liability |                     |                    |               |
| Prior Measurement Date                  | 0.59607500%         | 0.23536772%        |               |
| Proportion of the Net Pension Liability |                     |                    |               |
| Current Measurement Date                | <u>0.58971370%</u>  | <u>0.26715863%</u> |               |
| Change in Proportionate Share           | <u>-0.00636130%</u> | <u>0.03179091%</u> |               |
| Proportionate Share of the Net          |                     |                    |               |
| Pension Liability                       | \$33,649,701        | \$73,834,832       | \$107,484,533 |
| Pension Expense                         | \$2,061,980         | \$5,166,971        | \$7,228,951   |

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

|  | <u>SERS</u>        | <u>STRS</u>         | <u>Total</u>        |
|--|--------------------|---------------------|---------------------|
| <b>Deferred Outflows of Resources</b>  |                    |                     |                     |
| Differences between expected and actual experience   | \$541,823          | \$3,365,936         | \$3,907,759         |
| Changes in proportionate Share and difference between School District contributions and proportionate share of contributions | 0                  | 7,237,906           | 7,237,906           |
| School District contributions subsequent to the measurement date   | <u>2,909,657</u>   | <u>4,634,777</u>    | <u>7,544,434</u>    |
| Total Deferred Outflows of Resources   | <u>\$3,451,480</u> | <u>\$15,238,619</u> | <u>\$18,690,099</u> |
| <b>Deferred Inflows of Resources</b>   |                    |                     |                     |
| Net difference between projected and actual earnings on pension plan investments   | \$1,114,924        | \$5,310,120         | \$6,425,044         |
| Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions | <u>276,645</u>     | <u>0</u>            | <u>276,645</u>      |
| Total Deferred Inflows of Resources  | <u>\$1,391,569</u> | <u>\$5,310,120</u>  | <u>\$6,701,689</u>  |

\$7,544,434 reported as deferred outflows of resources related to pension resulting from Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

| Fiscal Year Ending June 30: | SERS               | STRS               | Total              |
|-----------------------------|--------------------|--------------------|--------------------|
| 2017                        | (\$493,271)        | \$611,158          | \$117,887          |
| 2018                        | (493,271)          | 611,158            | 117,887            |
| 2019                        | (495,838)          | 611,158            | 115,320            |
| 2020                        | 632,634            | 3,460,248          | 4,092,882          |
| Total                       | <u>(\$849,746)</u> | <u>\$5,293,722</u> | <u>\$4,443,976</u> |

**Actuarial Assumptions - SERS**

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

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.

## Educational Service Center of Cuyahoga County

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

| Asset Class            | Target<br>Allocation | Long-Term Expected<br>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 Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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.

**Changes Between the Measurement Date and Report Date** In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Service Center's net pension liability is expected to be significant.

|  | 1% Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| Service Center's proportionate share<br>of the net pension liability | \$46,660,039           | \$33,649,701                        | \$22,693,918           |

## Educational Service Center of Cuyahoga County

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

#### ***Actuarial Assumptions - STRS***

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

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

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

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

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

| <u>Asset Class</u>   | <u>Target<br/>Allocation</u> | <u>10 Year Expected<br/>Nominal<br/>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   | 1.00                         | 3.00   |
| <br>Total            | <br><u>100.00 %</u>          |  |

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

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

**Educational Service Center of Cuyahoga County**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

|  | 1% Decrease<br>(6.75%) | Current<br>Discount Rate<br>(7.75%) | 1% Increase<br>(8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$102,562,150          | \$73,834,832                        | \$49,541,600           |

**Note 20 - Postemployment Benefits**

***School Employees Retirement System***

**Health Care Plan Description** - The Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](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 allocation 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. For fiscal year 2016, the Service Center's surcharge obligation was \$122,855.

## **Educational Service Center of Cuyahoga County**

### *Notes to the Basic Financial Statements*

#### *For the Fiscal Year Ended June 30, 2016*

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The Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$122,855, \$239,044, and \$204,009, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

#### ***State Teachers Retirement System (STRS)***

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

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$241,732, respectively. The full amount has been contributed for 2016, 2015 and 2014

## **Required Supplementary Information**

**Educational Service Center of Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of the Service Center's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Three Fiscal Years (1)\**

|  | <u>2016</u>  | <u>2015</u>  | <u>2014</u>  |
|--|--------------|--------------|--------------|
| Service Center's Proportion of the Net Pension Liability   | 0.58971370%  | 0.59607500%  | 0.59607500%  |
| Service Center's Proportionate Share of the Net Pension Liability  | \$33,649,701 | \$30,167,099 | \$35,446,764 |
| Service Center's Covered Payroll   | \$17,974,831 | \$17,325,057 | \$17,327,092 |
| Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 187.20%      | 174.12%      | 204.57%      |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                               | 69.16%       | 71.70%       | 65.52%       |

(1) Information prior to 2014 is not available.

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

**Educational Service Center of Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of the Service Center's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Three Fiscal Years (1)\**

|  | 2016         | 2015         | 2014         |
|--|--------------|--------------|--------------|
| Service Center's Proportion of the Net Pension Liability   | 0.26715863%  | 0.23536772%  | 0.23536772%  |
| Service Center's Proportionate Share of the Net Pension Liability  | \$73,834,832 | \$57,249,575 | \$68,195,319 |
| Service Center's Covered Payroll   | \$27,969,093 | \$23,804,507 | \$22,450,062 |
| Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 263.99%      | 240.50%      | 303.76%      |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                               | 72.10%       | 74.70%       | 69.30%       |

(1) Information prior to 2014 is not available.

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

**Educational Service Center of Cuyahoga County**  
*Required Supplementary Information*  
*Schedule of Service Center Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

|   | <u>2016</u>        | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contribution                                     | \$2,909,657        | \$2,369,083        | \$2,401,253        | \$2,398,069        |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(2,909,657)</u> | <u>(2,369,083)</u> | <u>(2,401,253)</u> | <u>(2,398,069)</u> |
| Contribution Deficiency (Excess)  | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         |
| Service Center Covered Payroll  | \$20,783,264       | \$17,974,831       | \$17,325,057       | \$17,327,092       |
| Contributions as a Percentage of<br>Covered Payroll                     | 14.00%             | 13.18%             | 13.86%             | 13.84%             |

| 2012         | 2011         | 2010         | 2009         | 2008         | 2007         |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$1,583,669  | \$2,402,344  | \$2,609,456  | \$1,905,414  | \$1,848,538  | \$1,850,398  |
| (1,583,669)  | (2,402,344)  | (2,609,456)  | (1,905,414)  | (1,848,538)  | (1,850,398)  |
| \$0          | \$0          | \$0          | \$0          | \$0          | \$0          |
| \$11,774,488 | \$19,111,727 | \$19,272,199 | \$19,363,960 | \$18,824,214 | \$17,325,824 |
| 13.45%       | 12.57%       | 13.54%       | 9.84%        | 9.82%        | 10.68%       |

**Educational Service Center of Cuyahoga County**

*Required Supplementary Information  
Schedule of Service Center Contributions  
State Teachers Retirement System of Ohio  
Last Ten Fiscal Years*

|   | <u>2016</u>        | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contribution                                     | \$4,634,777        | \$3,915,673        | \$3,094,586        | \$2,918,508        |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(4,634,777)</u> | <u>(3,915,673)</u> | <u>(3,094,586)</u> | <u>(2,918,508)</u> |
| Contribution Deficiency (Excess)  | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         |
| Service Center Covered Payroll  | \$33,105,550       | \$27,969,093       | \$23,804,507       | \$22,450,062       |
| Contributions as a Percentage of<br>Covered-Employee Payroll            | 14.00%             | 14.00%             | 13.00%             | 13.00%             |

| <u>2012</u>        | <u>2011</u>        | <u>2010</u>        | <u>2009</u>        | <u>2008</u>        | <u>2007</u>        |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$2,238,018        | \$2,957,596        | \$3,074,137        | \$2,961,937        | \$2,736,288        | \$2,608,665        |
| <u>(2,238,018)</u> | <u>(2,957,596)</u> | <u>(3,074,137)</u> | <u>(2,961,937)</u> | <u>(2,736,288)</u> | <u>(2,608,665)</u> |
| <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         | <u>\$0</u>         |
| \$17,215,523       | \$22,750,738       | \$23,647,208       | \$22,784,131       | \$21,048,369       | \$20,066,654       |
| 13.00%             | 13.00%             | 13.00%             | 13.00%             | 13.00%             | 13.00%             |

## **Additional Supplementary Information**

## Supplemental Information

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

|   | Budgeted Amounts    |                     | Actual             | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|--------------------|---|
|   | Original            | Final               |                    |   |
| <b>Revenues</b>                                     |                     |                     |                    |   |
| Intergovernmental                                   |                     |                     | \$7,348,524        |   |
| Interest  |                     |                     | 104,629            |   |
| Tuition and Fees                                    |                     |                     | 31,944,721         |   |
| Rentals   |                     |                     | 1,036,588          |   |
| Charges for Services                                |                     |                     | 32,186,153         |   |
| Contributions and Donations                         |                     |                     | 2,251              |   |
| Miscellaneous                                       |                     |                     | <u>2,207,209</u>   |   |
| <i>Total Revenues</i>                               |                     |                     | <u>74,830,075</u>  |   |
| <b>Expenditures</b>                                 |                     |                     |                    |   |
| Current:  |                     |                     |                    |   |
| Instruction:  |                     |                     |                    |   |
| Regular   | 10,132,017          | 11,500,811          | 10,830,171         | 670,640   |
| Special   | 31,037,229          | 35,276,786          | 33,190,543         | 2,086,243   |
| Vocational  | 391,327             | 444,194             | 418,292            | 25,902  |
| Support Services:                                   |                     |                     |                    |   |
| Pupil   | 7,434,206           | 8,438,535           | 7,946,465          | 492,070   |
| Instructional Staff                                 | 3,719,086           | 4,221,518           | 3,975,352          | 246,166   |
| Board of Education                                  | 68,873              | 78,178              | 73,619             | 4,559   |
| Administration                                      | 10,752,789          | 12,205,445          | 11,493,718         | 711,727   |
| Fiscal  | 1,636,758           | 1,857,877           | 1,749,540          | 108,337   |
| Business  | 64,091              | 72,749              | 68,507             | 4,242   |
| Operation and Maintenance of Plant                  | 2,176,067           | 2,470,044           | 2,326,010          | 144,034   |
| Pupil Transportation                                | 16,503              | 18,732              | 17,640             | 1,092   |
| Central   | 692,901             | 786,509             | 740,646            | 45,863  |
| Operation of Non-Instructional Services             | 49,832              | 56,564              | 53,266             | 3,298   |
| Extracurricular Activities                          | 41,386              | 46,977              | 44,238             | 2,739   |
| Capital Outlay                                      | 267,547             | 303,692             | 285,983            | 17,709  |
| Debt Service:                                       |                     |                     |                    |   |
| Principal Retirement                                | 280,000             | 280,000             | 280,000            | 0   |
| Interest and Fiscal Charges                         | <u>64,637</u>       | <u>64,637</u>       | <u>64,637</u>      | <u>0</u>  |
| <i>Total Expenditures</i>                           | <u>68,825,249</u>   | <u>78,123,248</u>   | <u>73,558,627</u>  | <u>4,564,621</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(68,825,249)</u> | <u>(78,123,248)</u> | <u>1,271,448</u>   |   |
| <b>Other Financing Sources (Uses)</b>               |                     |                     |                    |   |
| Advances In   |                     |                     | 1,760,000          |   |
| Advances Out  |                     |                     | (2,331,000)        |   |
| Transfers Out                                       |                     |                     | <u>(9,077)</u>     |   |
| <i>Total Other Financing Sources (Uses)</i>         |                     |                     | <u>(580,077)</u>   |   |
| <i>Net Change in Fund Balance</i>                   |                     |                     | 691,371            |   |
| <i>Fund Balance Beginning of Year</i>               |                     |                     | 8,484,159          |   |
| Prior Year Encumbrances Appropriated                |                     |                     | <u>779,455</u>     |   |
| <i>Fund Balance End of Year</i>                     |                     |                     | <u>\$9,954,985</u> |   |

See accompanying notes to the supplemental information

**Supplemental Information**

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Title VI-B Fund*  
*For the Fiscal Year Ended June 30, 2016*

|   | Budgeted Amounts   |                    | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|--------------------|------------------|---|
|   | Original           | Final              |                  |   |
| <b>Revenues</b>                                     |                    |                    |                  |   |
| Intergovernmental                                   |                    |                    | \$2,776,759      |   |
| <b>Expenditures</b>                                 |                    |                    |                  |   |
| Current:  |                    |                    |                  |   |
| Instruction:  |                    |                    |                  |   |
| Special   | 74,560             | 344,146            | 330,310          | 13,836  |
| Support Services:                                   |                    |                    |                  |   |
| Pupil   | 9,483              | 42,014             | 42,014           | 0   |
| Instructional Staff                                 | 1,878,015          | 2,056,900          | 1,749,319        | 307,581   |
| Administration                                      | 536,214            | 520,309            | 461,749          | 58,560  |
| Fiscal  | 94,618             | 136,912            | 136,912          | 0   |
| Operation and Maintenance of Plant                  | 164,859            | 134,499            | 134,499          | 0   |
| Operation of Non-Instructional Services             | 329,641            | 277,555            | 268,695          | 8,860   |
| <i>Total Expenditures</i>                           | <u>3,087,390</u>   | <u>3,512,335</u>   | <u>3,123,498</u> | <u>388,837</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(3,087,390)</u> | <u>(3,512,335)</u> | <u>(346,739)</u> |   |
| <b>Other Financing Sources (Uses)</b>               |                    |                    |                  |   |
| Advances In   |                    |                    | 675,000          |   |
| Advances Out  |                    |                    | (256,000)        |   |
| Transfers In  |                    |                    | 7,170            |   |
| <i>Total Other Financing Sources (Uses)</i>         |                    |                    | <u>426,170</u>   |   |
| <i>Net Change in Fund Balance</i>                   |                    |                    | 79,431           |   |
| <i>Fund Balance Beginning of Year</i>               |                    |                    | 194,489          |   |
| Prior Year Encumbrances Appropriated                |                    |                    | <u>78,538</u>    |   |
| <i>Fund Balance End of Year</i>                     |                    |                    | <u>\$352,458</u> |   |

See accompanying notes to the supplemental information

**Supplemental Information**

**Educational Service Center of Cuyahoga County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Miscellaneous Federal Grants Fund*  
*For the Fiscal Year Ended June 30, 2016*

|   | Budgeted Amounts |                    | Actual                 | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|--------------------|------------------------|---|
|   | Original         | Final              |                        |   |
| <b>Revenues</b>   |                  |                    |                        |   |
| Intergovernmental                                       |                  |                    | \$956,611              |   |
| <b>Expenditures</b>                                     |                  |                    |                        |   |
| Support Services:                                       |                  |                    |                        |   |
| Pupil   | 103,011          | 1,793,722          | 1,588,296              | 205,426   |
| Instructional Staff                                     | 24,874           | 161,131            | 94,951                 | 66,180  |
| Administration  | 500              | 500                | 0                      | 500   |
| Fiscal  | 10,668           | 26,311             | 16,732                 | 9,579   |
| Operation of Non-Instructional Services                 | 0                | 8,390              | 8,390                  | 0   |
| <i>Total Expenditures</i>                               | <u>139,053</u>   | <u>1,990,054</u>   | <u>1,708,369</u>       | <u>281,685</u>  |
| <i>Excess of Revenues Over<br/>(Under) Expenditures</i> | <u>(139,053)</u> | <u>(1,990,054)</u> | <u>(751,758)</u>       |   |
| <b>Other Financing Sources (Uses)</b>                   |                  |                    |                        |   |
| Advances In   |                  |                    | 975,000                |   |
| Advances Out  |                  |                    | <u>(250,000)</u>       |   |
| <i>Total Other Financing Sources (Uses)</i>             |                  |                    | <u>725,000</u>         |   |
| <i>Net Change in Fund Balance</i>                       |                  |                    | (26,758)               |   |
| <i>Fund Balance Beginning of Year</i>                   |                  |                    | 73,306                 |   |
| Prior Year Encumbrances Appropriated                    |                  |                    | <u>39,803</u>          |   |
| <i>Fund Balance End of Year</i>                         |                  |                    | <u><u>\$86,351</u></u> |   |

See accompanying notes to the supplemental information

# Educational Service Center of Cuyahoga County

## *Notes to the Additional Supplementary Information*

*For the Fiscal Year Ended June 30, 2016*

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### **Note 1 – Budgetary Basis of Accounting**

#### ***Budgetary Process***

The Service Center is not required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

#### ***Budgetary Basis of Accounting***

While the Service Center is reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual for the general fund and the major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
3. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
6. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).

**Educational Service Center of Cuyahoga County**

*Notes to the Additional Supplementary Information*

*For the Fiscal Year Ended June 30, 2016*

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The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements for the major funds.

|   | Net Change in Fund Balance |                 |                                    |
|---|----------------------------|-----------------|------------------------------------|
|   | General                    | Title VI-B      | Miscellaneous<br>Federal<br>Grants |
| GAAP Basis                              | \$3,448,399                | (\$117,350)     | (\$714,980)                        |
| Net Adjustment for Revenue Accruals     | (1,057,488)                | (27,324)        | (2,166)                            |
| Beginning Unrecorded Cash               | 11,778                     | 0               | 0                                  |
| Beginning Fair Value Adjustment         | 2,933                      | 0               | 0                                  |
| Ending Fair Value Adjustment            | (26,007)                   | 0               | 0                                  |
| Advances In                             | 1,760,000                  | 675,000         | 975,000                            |
| Advances Out                            | (2,331,000)                | (256,000)       | (250,000)                          |
| Net Adjustment for Expenditure Accruals | 163,191                    | (556)           | 13,876                             |
| Adjustment for Encumbrances             | (1,280,435)                | (194,339)       | (48,488)                           |
| Budget Basis                            | <u>\$691,371</u>           | <u>\$79,431</u> | <u>(\$26,758)</u>                  |

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**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY  
CUYAHOGA COUNTY**

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

| Federal Grantor/Pass-Through<br>Grantor/Program or Cluster Title         | Grant<br>Year | CFDA<br>Number | Disbursements | Passed Through<br>to Subrecipient |
|--|---------------|----------------|---------------|-----------------------------------|
| <b><u>U.S. Department of Agriculture:</u></b>                            |               |                |               |                                   |
| <b><i>Passed-Through Ohio Department of Education:</i></b>               |               |                |               |                                   |
| Child Nutrition Cluster:   |               |                |               |                                   |
| Federal School Breakfast   | 2016          | 10.553         | \$ 168,643    | \$ 168,643                        |
| National School Lunch Program  | 2016          | 10.555         | 305,394       | 305,394                           |
| <b>Total U.S. Department of Agriculture</b>                              |               |                | 474,037       | 474,037                           |
| <b><u>U.S. Department of Education:</u></b>                              |               |                |               |                                   |
| <b><i>Passed-Through Ohio Department of Education:</i></b>               |               |                |               |                                   |
| Special Education Cluster:   |               |                |               |                                   |
| Special Education - Grants to States (IDEA, Part B)                      | 2015          | 84.027         | 256,490       |                                   |
| Special Education - Grants to States (IDEA, Part B)                      | 2016          | 84.027         | 2,672,668     |                                   |
| Subtotal Special Education - Grants to States (IDEA, Part B)             |               |                | 2,929,158     |                                   |
| Special Education - Preschool Grants (IDEA Preschool)                    | 2015          | 84.173         | 3,548         |                                   |
| Special Education - Preschool Grants (IDEA Preschool)                    | 2016          | 84.173         | 67,280        |                                   |
| Subtotal Special Education - Preschool Grants (IDEA Preschool)           |               |                | 70,828        |                                   |
| <b>Total Special Education Cluster (IDEA)</b>                            |               |                | 2,999,986     |                                   |
| School Climate Transformation  | 2015          | 84.184         | 113           |                                   |
| Special Education - State Personnel Development                          | 2015          | 84.323         | 14,693        |                                   |
| Special Education - State Personnel Development                          | 2016          | 84.323         | 55,994        |                                   |
| Total Special Education - State Personnel Development                    |               |                | 70,687        |                                   |
| Improving Teacher Quality State Grants, Title II-A                       | 2015          | 84.367         | 6,015         |                                   |
| Improving Teacher Quality State Grants, Title II-A                       | 2016          | 84.367         | 259,504       |                                   |
| Total Improving Teacher Quality State Grants, Title II-A                 |               |                | 265,519       |                                   |
| English Language Acquisition Grant                                       | 2015          | 84.365         | 17,129        | 14,576                            |
| English Language Acquisition Grant                                       | 2016          | 84.365         | 120,865       | 118,495                           |
| Total English Language Acquisition Grant                                 |               |                | 137,994       | 133,071                           |
| ARRA - Race To The Top   | 2015          | 84.395         | 52,990        |                                   |
| SST Early Learning Challenge   | 2015          | 84.412         | 5,363         |                                   |
| SST Early Learning Challenge   | 2016          | 84.412         | 10,561        |                                   |
| Total SST Early Learning Challenge                                       |               |                | 15,924        |                                   |
| <b><i>Passed-Through Ohio Department of Health:</i></b>                  |               |                |               |                                   |
| Special Education - Grants for Infants and Families                      | 2015          | 84.181         | 9,351         |                                   |
| Special Education - Grants for Infants and Families                      | 2016          | 84.181         | 1,360,942     |                                   |
| Total Special Education - Grants for Infants and Families                |               |                | 1,370,293     |                                   |
| <b>Total U.S. Department of Education</b>                                |               |                | 4,913,506     |                                   |
| <b><u>U.S. Department of Health and Human Services:</u></b>              |               |                |               |                                   |
| <b><i>Passed Through Ohio Department of Job and Family Services:</i></b> |               |                |               |                                   |
| Project AWARE  | 2016          | 93.243         | 206,306       |                                   |
| Refugee and Entrant Assistance Grant                                     | 2015          | 93.576         | 68,717        | 65,256                            |
| Refugee and Entrant Assistance Grant                                     | 2016          | 93.576         | 6,868         | 6,541                             |
| Total Refugee Impact and Entrant Assistance                              |               |                | 75,585        | 71,797                            |
| <b>Total U.S. Department of Health and Human Services</b>                |               |                | 281,891       |                                   |
| <b>Total Expenditures of Federal Awards</b>                              |               |                | \$ 5,669,434  | \$ 678,905                        |

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY  
CUYAHOGA COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Educational Service Center of Cuyahoga County (the Service Center's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Service Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Service Center.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Service Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - SUBRECIPIENTS**

The Service Center passes certain federal awards received from the U.S. Department of Agriculture, U.S. Department of Health and Human Services and U.S. Department of Education to other governments or not-for-profit agencies (subrecipients). As Note B describes, the Service Center reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the Service Center has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**NOTE D - CHILD NUTRITION CLUSTER**

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



# Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County  
Cuyahoga County  
6393 Oak Tree Boulevard  
Independence, Ohio 44131

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Cuyahoga County, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 13, 2017.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the 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 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 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.

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 13, 2017



# Dave Yost • Auditor of State

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

Educational Service Center of Cuyahoga County  
Cuyahoga County  
6393 Oak Tree Boulevard  
Independence, Ohio 44131

To the Governing Board:

### ***Report on Compliance for Each Major Federal Program***

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Educational Service Center of Cuyahoga County complied, in all material respects with the compliance requirements referred to above that could directly and materially affects each of its major federal programs for the year ended June 30, 2016.

***Report on Internal Control Over Compliance***

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

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

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

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 13, 2017

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY  
CUYAHOGA COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

|                     |   |  |
|---------------------|---|--|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>  | Unmodified   |
| <b>(d)(1)(ii)</b>   | <b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>      | No   |
| <b>(d)(1)(ii)</b>   | <b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | No   |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                        | No   |
| <b>(d)(1)(iv)</b>   | <b>Were there any material weaknesses in internal control reported for major federal programs?</b>                    | No   |
| <b>(d)(1)(iv)</b>   | <b>Were there any significant deficiencies in internal control reported for major federal programs?</b>               | No   |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unmodified   |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>  | No   |
| <b>(d)(1)(vii)</b>  | <b>Major Programs (list):</b>   | <u>Child Nutrition Cluster:</u><br>CFDA# 10.553 - School Breakfast Program (SBP)<br>CFDA #10.555 - National School Lunch Program (NSLP)<br><u>Special Education Cluster:</u><br>CFDA# 84.027 Special Education - Grants to States (IDEA, Part B)<br>CFDA# 84.173 Special Education - Preschool Grants (IDEA Preschool) |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 750,000<br>Type B: all others   |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee under 2 CFR §200.520?</b>   | No   |

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

None

EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS

2 CFR § 200.515

JUNE 30, 2016

(CONTINUED)

**3. FINDINGS FOR FEDERAL AWARDS**

None



# Dave Yost • Auditor of State

**EDUCATIONAL SERVICE CENTER OF CUYAHOGA COUNTY**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 28, 2017**