TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

MARY WORKMAN, TREASURER

Dave Yost · Auditor of State

Governing Board
Tri-County Educational Service Center
741 Winkler Drive
Wooster, Ohio 44691

We have reviewed the *Independent Auditor's Report* of the Tri-County Educational Service Center, Wayne County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

November 27, 2017

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TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO

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Julian & Grube, Inc.
Serving Ohio Local Governments
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Independent Auditor's Report

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tri-County Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Tri-County Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Tri-County Educational Service Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of June 30, 2017, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental Information

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

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

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of the Tri-County Educational Service Center’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tri-County Educational Service Center’s internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
October 26, 2017

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position increased $225,447, which represents a 4 percent increase from fiscal year 2016.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole ESC. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant fund with all other non-major funds presented in total in one column. For fiscal year 2017, the general fund is the ESC's most significant fund.

Basis of Accounting

The ESC has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The statement of net position and the statement of activities answer this question.

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

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

Reporting the ESC's Most Significant Fund

Fund Financial Statements

The analysis of the ESC's major fund begins on page 8. Fund financial reports provide detailed information about the ESC's major fund. The ESC uses many funds to account for financial transactions. However, these fund financial statements focus on the ESC's most significant fund. The ESC's major governmental fund is the general fund.

Governmental Funds - Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Proprietary Fund - The ESC maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

Reporting the ESC's Fiduciary Responsibilities

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the ESC. These funds are not reflected in the government-wide financial statements because the resources are not available to support the ESC's own programs. The accounting for the fiduciary funds is much like that used for proprietary funds. The ESC does not report any fiduciary funds.

The ESC as a Whole

Table 1 provides a summary of the ESC's net position for fiscal year 2017 compared to 2016.

(Table 1)
Net Position –Cash Basis

	Governmental Activities	
	2017	2016
Assets		
Equity in Pooled Cash and Cash Equivalents	$ 5,038,052	$ 4,282,400
Cash and Cash Equivalents with Fiscal Agent	1,075,659	1,605,864
Total Assets	$ 6,113,711	$ 5,888,264
Net Position		
Restricted for Other Purposes	$ 70,446	$ 62,436
Unrestricted	6,043,265	5,825,828
Total Net Position	$ 6,113,711	$ 5,888,264

Net position of the governmental activities increased $225,447, which represents a 4 percent increase from fiscal year 2016.

A portion of the ESC's net position, $70,446 or 1 percent, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of $6,043,265 may be used to meet the ESC's ongoing obligations.

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

(Table 2)
Changes in Net Position –Cash Basis

	Governmental Activities	
	2017	2016
Receipts		
Program Receipts		
Charges for Services and Sales	$ 10,712,517	$ 10,417,003
Operating Grants, Contributions and Interest	1,390,064	1,532,852
Total Program Receipts	12,102,581	11,949,855
General Receipts		
Grants and Entitlements not Restricted to Specific Programs	893,854	833,726
Investment Earnings	27,444	16,877
Miscellaneous	45,736	32,734
Total General Receipts	967,034	883,337
Total Receipts	13,069,615	12,833,192
Program Disbursements		
Instruction:		
Regular	1,263,793	1,305,796
Special	3,237,559	3,335,748
Adult/Continuing Education	0	19,628
Support Services:		
Pupils	2,329,343	2,559,893
Instructional Staff	411,054	418,729
Board of Education	91,810	59,278
Administration	841,427	880,118
Fiscal	292,822	342,923
Business	15,795	14,455
Operation and Maintenance of Plant	162,987	273,264
Central	3,544,586	3,236,016
Operation of Non-Instructional Services:		
Community Services	652,992	624,912
Total Program Disbursements	12,844,168	13,070,760
Change in Net Position	225,447	(237,568)
Net Position Beginning of Year	5,888,264	6,125,832
Net Position End of Year	$ 6,113,711	$ 5,888,264

For comparability purposes, fiscal year 2016 was updated in Tables 2 and 3 to reflect changes made to charges for services and support services central expenditures that were caused by the elimination of the Midland COG activity from the ESC's Jefferson Health Plan account.

Governmental Activities

Total governmental disbursements of $12,844,168 were offset by program receipts of $12,102,581 and general receipts of $967,034.

Program receipts supported 94 percent of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from charges for services and sales provided to other entities. This receipt source represents 82 percent of total governmental receipts.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

(Table 3)
Governmental Activities –Cash Basis

	Total Costs of Services		Net Costs of Services	
	2017	2016	2017	2016
Program Disbursements				
Instruction:				
Regular	$ 1,263,793	$ 1,305,796	$ 153,633	$ 246,122
Special	3,237,559	3,335,748	(35,855)	302,877
Adult/Continuing Education	0	19,628	0	(174,179)
Support Services:				
Pupils	2,329,343	2,559,893	417,351	504,398
Instructional Staff	411,054	418,729	117,898	127,115
Board of Education	91,810	59,278	37,125	31,714
Administration	841,427	880,118	201,846	228,955
Fiscal	292,822	342,923	98,613	67,687
Business	15,795	14,455	6,387	7,733
Operation and Maintenance of Plant	162,987	273,264	62,277	139,017
Central	3,544,586	2,865,712	582,121	586,903
Operation of Non-Instructional Services:				
Community Services	652,992	624,912	(899,809)	(947,437)
Total	$ 12,844,168	$ 12,700,456	$ 741,587	$ 1,120,905

The ESC's Funds

The ESC's governmental funds are accounted for using the cash basis of accounting.

The general fund's fund balance increased $728,912 in 2017. The ESC received $1,000,000 from The Jefferson Health Plan (reported as an internal service fund) to reduce the reserve being held by the Plan. This money was then transferred to the General fund, resulting in the large increase for 2017.

Current Issues

The Tri-County ESC is dedicated to serving its local school districts by providing valuable services as needed. The Board and administration closely monitor its receipts and disbursements in accordance with Board policy to remain financially viable. While many outside factors can affect the economy, including state funding reductions to ESCs, the Tri-County ESC continues to provide the best services possible and to be fiscally responsible.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Workman, Treasurer, Tri-County ESC, 741 Winkler Drive, Wooster, Ohio 44691, or by calling 330-345-6771.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Net Position - Cash Basis
June 30, 2017

		Governmental Activities
Assets		
Equity in Pooled Cash and Cash Equivalents	$	5,038,052
Cash and Cash Equivalents with Fiscal Agent		1,075,659
Total Assets	$	6,113,711
Net Position		
Restricted for Other Purposes	$	70,446
Unrestricted		6,043,265
Total Net Position	$	6,113,711

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2017

		Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$ 1,263,793	$ 1,078,536	$ 31,624	$ (153,633)
Special	3,237,559	3,227,171	46,243	35,855
Support Services:				
Pupils	2,329,343	1,758,373	153,619	(417,351)
Instructional Staff	411,054	185,550	107,606	(117,898)
Board of Education	91,810	54,685	0	(37,125)
Administration	841,427	614,394	25,187	(201,846)
Fiscal	292,822	174,776	19,433	(98,613)
Business	15,795	9,408	0	(6,387)
Operation and Maintenance of Plant	162,987	100,710	0	(62,277)
Central	3,544,586	2,962,465	0	(582,121)
Operation of Non-Instructional Services:				
Community Services	652,992	546,449	1,006,352	899,809
Totals	$ 12,844,168	$ 10,712,517	$ 1,390,064	(741,587)

General Receipts	
Grants and Entitlements not Restricted to Specific Programs	893,854
Investment Earnings	27,444
Miscellaneous	45,736
Total General Receipts	967,034
Change in Net Position	225,447
Net Position Beginning of Year	5,888,264
Net Position End of Year	$ 6,113,711

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	$ 4,970,315	$ 67,737	$ 5,038,052
Fund Balances			
Restricted	$ 0	$ 70,446	$ 70,446
Committed	58,664	0	58,664
Assigned	247,339	0	247,339
Unassigned	4,664,312	(2,709)	4,661,603
Total Fund Balances	$ 4,970,315	$ 67,737	$ 5,038,052

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities - Cash Basis
June 30, 2017

Total Governmental Fund Balances	$	5,038,052
Amounts reported for governmental activities in the statement of net position are different because:		
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net position.		1,075,659
Net Position of Governmental Activities	$	6,113,711

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	$ 1,912,543	$ 376,873	$ 2,289,416
Investment Income	23,248	0	23,248
Tuition and Fees	737,232	0	737,232
Gifts and Donations	7,005	0	7,005
Charges for Services	9,664,727	0	9,664,727
Miscellaneous	23,837	9,400	33,237
Total Receipts	12,368,592	386,273	12,754,865
Disbursements			
Current:			
Instruction:			
Regular	1,296,735	29,452	1,326,187
Special	3,339,451	44,161	3,383,612
Support Services:			
Pupils	2,235,701	147,052	2,382,753
Instructional Staff	321,133	95,282	416,415
Board of Education	91,810	0	91,810
Administration	862,418	23,555	885,973
Fiscal	289,761	18,320	308,081
Business	15,795	0	15,795
Operation and Maintenance of Plant	162,987	0	162,987
Central	3,351,277	0	3,351,277
Operation of Non-Instructional Services:			
Community Services	672,612	1,711	674,323
Total Disbursements	12,639,680	359,533	12,999,213
Excess of Receipts Over (Under) Disbursements	(271,088)	26,740	(244,348)
Other Financing Sources (Uses)			
Transfers In	1,000,000	0	1,000,000
Net Change in Fund Balances	728,912	26,740	755,652
Fund Balances Beginning of Year	4,241,403	40,997	4,282,400
Fund Balances End of Year	$ 4,970,315	$ 67,737	$ 5,038,052

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Reconciliation of the Statement of Receipts, Disbursements and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	$	755,652
Amounts reported for governmental activities in the statement of activities are different because:		
Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund disbursements and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements).		(530,205)
Change in Net Position of Governmental Activities	$	225,447

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Fund
June 30, 2017

	Governmental Activities Internal Service Fund
Assets	
Cash and Cash Equivalents with Fiscal Agent	$ 1,075,659
Net Position	
Unrestricted	$ 1,075,659

The notes are an integral part of the basic financial statements.

Tri-County Educational Service Center
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities - Internal Service Fund
Operating Receipts	
Charges for Services	$ 2,053,579
Operating Disbursements	
Purchased Services	345,732
Claims	1,242,249
Total Operating Disbursements	1,587,981
Operating Income	465,598
Non-Operating Receipts	
Interest	4,197
Income Before Transfers	469,795
Transfers Out	(1,000,000)
Change in Net Position	(530,205)
Net Position Beginning of Year	1,605,864
Net Position End of Year	$ 1,075,659

The notes are an integral part of the basic financial statements.

Note 1 - Description of the Educational Service Center

The Tri-County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is an educational service center as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected governing board of nine members and provides services to the public schools in Holmes, Wayne and Ashland Counties. The Board controls the ESC's instructional support services.

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 ESC consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, and related special education, supervisory and administrative and fiscal activities of the ESC.

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes. The ESC does not have any component units.

The ESC is associated with the Tri-County Computer Service Association (TCCSA), a jointly governed organization; the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), the Schools of Ohio Risk Sharing Authority Board (SORSA) and the Jefferson Health Plan, which are public entity risk pools. These organizations are presented in Notes 11 and 12.

Note 2 - Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the ESC's accounting policies.

A. Basis of Presentation

The ESC'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 ESC 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 also eliminated to avoid "doubling up" receipts and disbursements.

The statement of net position presents the financial condition of the governmental activities of the ESC at fiscal year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the ESC's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts 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. General receipts are receipts which are not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the ESC.

Fund Financial Statements During the year, the ESC segregates transactions related to certain ESC 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 ESC 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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

B. Fund Accounting

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

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

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

The other governmental funds of the ESC account for grants and other resources to which the ESC is bound to observe constraints imposed upon the use of the resources.

Proprietary Funds The ESC classifies funds financed primarily from user charges for goods or services as proprietary. The ESC's only proprietary fund is an 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 ESC on a cost reimbursement basis. The ESC's only internal service fund accounts for a self-insurance program for employee medical benefits.

C. Basis of Accounting

The ESC's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the ESC's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the ESC are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and deferred outflows of resources and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows of resources and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through ESC records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The ESC participates in the Jefferson Health Plan insurance consortium for self-insurance. These monies are held separate from the ESC's central bank account and are reflected in the financial statements as "cash and cash equivalents with fiscal agent."

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

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2017 amounted to $23,248, which includes $767 assigned from other ESC 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 ESC are presented on the financial statements as cash equivalents.

F. Inventory and Prepaid Items

The ESC reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The ESC reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the ESC's cash basis of accounting.

J. Employer Contributions to Cost-Sharing Plans

The ESC recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postemployment health care benefits.

K. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the ESC classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. 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 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. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated receipt and appropriations in the subsequent year's appropriated budget.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The ESC applies restricted resources first when disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Net Position

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 primarily includes amounts for activities associated with assisting the instructional staff with the content and process of providing learning experiences for pupils.

The ESC's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

M. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

N. Pensions

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

O. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2017, the ESC has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the ESC.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the ESC.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the ESC.

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

Note 3 – Accountability and Compliance

A. Accountability

Fund balances at June 30, 2017 included the following individual fund deficits:

Nonmajor Governmental Funds:	
IDEA Part B Grants	$ 839
Title III	1,595
IDEA Preschool	7
Miscellaneous Federal Grants	268

The general fund is liable for any deficit and provides transfers when cash is required.

B. Compliance

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

Note 4 - Deposits and Investments

State statute classifies monies held by the ESC into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

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

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed forty percent of the interim moneys available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the ESC's name. During fiscal year 2017, the ESC and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the ESC's deposits were $1,345,758, which excludes $450 in cash on hand. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2017, $1,278,884 of the ESC's bank balance of $1,528,884 was exposed to custodial risk as discussed above and $250,000 was covered by depository insurance.

Investments

As of June 30, 2017, the ESC had the following investments and maturities:

		Investment Maturity	
Investment Type	NAV	Less than 1 year	Total Investments
Star Ohio	$3,691,844	$3,691,844	100.00%

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

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days and carries a rating of AAAm by S&P Global Ratings. The ESC has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The ESC places no limit on the amount that may be invested in any one issuer. The table above includes the percentage to total of each investment type held by the ESC at June 30, 2017.

Funds Held by Fiscal Agent

The ESC participates in the Jefferson Health Plan for employee benefits. The amount held at fiscal year end for the employee benefit self-insurance fund was $1,075,659. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Note 5 – State Funding

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

Part (B) of the budget is funded in the following way: $6.50 times the Average Daily Membership (ADM – the total number of pupils under the School District's supervision) is apportioned by the State Board of Education from the local School District's to which the ESC provides services from payments made under the State's foundation program.

Simultaneously, $37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. If additional funding is required and if a majority of the boards of education of the participating School District's approve, the cost of Part (B) of the budget that is in excess of $43.50 times ADM approved by the State Board of Education is apportioned to the participating School District's through reductions in their State foundation.

The local School District's to which the ESC provides services have agreed to pay $6.50 per pupil to provide additional funding for services provided by the ESC. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

Note 6 - Risk Management

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2017, the ESC contracted with the Schools of Ohio Risk Sharing Authority for property and general liability insurance coverage.

General liability coverage is $15,000,000 single occurrence and $17,000,000 annual aggregate limit and no deductible. Willis Risk Solutions is the actuary and reinsurance broker. Property coverage is provided by the pool and reinsurer Travelers Insurance Company and includes coverage for crime, employee dishonesty and inland marine. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

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

The ESC holds all reserves including Incurred But Not Reported (IBNR), Shock Stabilization and Fluctuation reserves.

The ESC is self-insured for employee health insurance claims, but maintains aggregate stop-loss insurance through Jefferson Health Plan. The Self-Insurance Fund pays covered claims to Jefferson Health Plan and recovers these costs from premium charges to employees and Midland Council of Governments based on calculations provided by Jefferson Health Plan's consultant (Findley Davis, Inc.). The June 30, 2017 loss reserves estimated by the ESC's actuary are as follows:

Internal Service Fund Cash and Cash Equivalents	$ 1,075,659
IBNR actuarial liability	(365,926)
Fund Surplus	$ 709,733

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 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 ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The ESC's contractually required contribution to SERS was $362,139 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 11.5 percent of the 13 percent member rate goes to the DC Plan and the remaining 1.5 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The ESC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was $829,739 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The ESC's employer allocation percentage of the net pension liability is based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Employer contributions were determined based on the 14 percent employer rate and total member contributions from employer payroll reports for the year ended June 30, 2016:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	$ 16,430,892	$ 6,023,776	$ 22,454,668
Proportion of the Net Pension Liability	0.04908698%	0.08230240%	

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015. The discount rate, assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability and mortality rates were also updated to more closely reflect actual experience.

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the ESC's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	$ 7,975,104	$ 6,023,776	$ 4,390,433

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the ESC's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the ESC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	$ 21,835,320	$ 16,430,892	$ 11,871,938

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

Note 8 – Postemployment Benefits

A. School Employees Retirement System

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, 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 2017, SERS did not allocate any employer contributions to the Health Care fund. 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 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the ESC's surcharge obligation was $41,556.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The ESC's contributions for health care for the fiscal year ended June 30, 2015, was $23,141. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the ESC did not contribute to health care in the last three fiscal years.

Note 9 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	General	Other Governmental Funds	Total
Restricted for:			
Grants	$ 0	$ 70,446	$ 70,446
Committed for:			
Retirement	58,664	0	58,664
Assigned for:			
Student and Staff Support	62,680	0	62,680
District Escrow Accounts	16,265	0	16,265
Preschool Activities	151,770	0	151,770
Other Purposes	16,624	0	16,624
Total Assigned	247,339	0	247,339
Unassigned	4,664,312	(2,709)	4,661,603
Total Fund Balance	$ 4,970,315	$ 67,737	$ 5,038,052

Note 10 – Contingencies and Commitments

A. Grants

The ESC received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2017.

B. Litigation

The ESC is party to a claim or lawsuit. Although the outcome is not presently determinable, in the opinion of the ESC's management, the resolution of this matter will not have a material adverse effect on the basic financial statements.

C. Encumbrance Commitments

Outstanding encumbrances for governmental funds include $62,680 in the general fund.

Note 11 - Jointly Governed Organization

Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 23 School District's and the ESC, created as a regional council of governments pursuant to State statute. 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 for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer of the Tri-County Educational Service Center, located in Wooster, Ohio which serves as fiscal agent.

Note 12 – Public Entity Risk Pools

Workers' Compensation Group Rating Program The ESC participates in the Ohio Association of School Business Officials (OASBO)/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority Board The ESC also participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of Directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the ESC's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

Jefferson Health Plan– The ESC participates in the Jefferson Health Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the Jefferson Health Plan's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

Note 13 – Interfund Transfers

During fiscal year 2017, the ESC transferred $1,000,000 from the Internal Service fund to the General fund to reduce the reserve being held in the Internal Service Fund.

SUPPLEMENTAL INFORMATION

TRI COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
	U.S. DEPARTMENT OF LABOR PASSED THROUGH THE ASHLAND COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
	Workforce Innovation & Opportunity Act (WIOA) Cluster:			
(C)	WIOA Youth Activities	17.259	N/A	$ 3,105
(C)	WIOA Youth Activities	17.259	N/A	150,437
	Total WIOA Youth Activities - Ashland			153,542
	PASSED THROUGH THE WAYNE COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
(C)	WIOA Youth Activities	17.259	N/A	16,800
	Total WIOA Youth Activities - Wayne			16,800
	Total U.S. Department of Labor and Workforce Innovation & Opportunity Act (WIOA) Cluster			170,342
	U.S. DEPARTMENT OF EDUCATION			
	Fund for the Improvement of Education	84.215	2017	137
	Total Funds for the Improvement of Education			137
	PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
	Special Education Grant Cluster:			
(D)	Special Education_Grants to States	84.027	2016	1,116
(D)	Special Education_Grants to States	84.027	2017	23,624
	Total Special Education_Grants to States			24,740
(D)	Special Education_Preschool Grants	84.173	2016	26,892
(D)	Special Education_Preschool Grants	84.173	2017	145,020
	Total Special Education_Preschool Grants			171,912
	Total Special Education Grant Cluster			196,652
	Twenty-First Century Community Learning Centers	84.287	2016	3,894
	Twenty-First Century Community Learning Centers	84.287	2017	80,628
	Total Twenty-First Century Community Learning Centers			84,522
	English Language Acquisition Grants	84.365	2017	22,331
	Total English Language Acquisition Grants			22,331
	PASSED THROUGH THE ASHLAND COUNTY FAMILY AND CHILDREN FIRST COUNCIL			
	Special Education_Grants for Infants and Families with Disabilities	84.181	2016	12,494
	Special Education_Grants for Infants and Families with Disabilities	84.181	2017	79,418
	Total Special Education_Grants for Infants and Families with Disabilities - Ashland			91,912
	PASSED THROUGH THE WAYNE COUNTY FAMILY AND CHILDREN FIRST COUNCIL			
	Special Education_Grants for Infants and Families with Disabilities	84.181	2016	21,853
	Special Education_Grants for Infants and Families with Disabilities	84.181	2017	113,014
	Total Special Education_Grants for Infants and Families with Disabilities - Wayne			134,867
	Total Special Education_Grants for Infants and Families with Disabilities			226,779
	Total U.S. Department of Education			530,421
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE ASHLAND COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
	Temporary Assistance for Needy Families (TANF) Cluster:			
(E)	Temporary Assistance for Needy Families	93.558	N/A	13,040
(E)	Temporary Assistance for Needy Families	93.558	N/A	82,861
(E)	Temporary Assistance for Needy Families	93.558	N/A	1,053
	Total Temporary Assistance for Needy Families - Ashland			96,954
	PASSED THROUGH THE WAYNE COUNTY DEPARTMENT OF JOB AND FAMILY SERVICES			
	Temporary Assistance for Needy Families (TANF) Cluster:			
(E)	Temporary Assistance for Needy Families	93.558	N/A	109,435
	Total Temporary Assistance for Needy Families - Wayne			109,435
	Total U.S. Department of Health and Human Services and Temporary Assistance for Needy Families Cluster			206,389
	Total Federal Financial Assistance			$ 907,152

Notes to the Schedule of Expenditures of Federal Awards:

(A) OAKS did not assign pass-through numbers for fiscal year 2017.

(B) This schedule includes the federal award activity under programs of the federal government for the fiscal year ended June 30, 2017. The information on this schldule is prepared in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Ptinciples, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Tri-County Educational Service Center it is not intended to and does not present the financial position or changes in net position.

(C) Included as part of "Workforce Innovation & Opportunity Act (WIOA) Cluster" in determining major programs.

(D) Included as part of "Special Education Grant Cluster" in determining major programs.

(E) Included as part of "Temporary Assistance for Needy Families (TANF) Cluster" in determining major programs.

(F) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. Tri-County Educational Service Center has elected not to use the 10% de minimus indirect cost rate.

Julian & Grube, Inc.
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

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, major fund, and the aggregate remaining fund information of the Tri-County Educational Service Center, Wayne County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tri-County Educational Service Center's basic financial statements and have issued our report thereon dated October 26, 2017, wherein we noted the Tri-County Educational Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Governing Board
Tri-County Educational Service Center

Compliance and Other Matters

As part of reasonably assuring whether the Tri-County Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Tri-County Educational Service Center's Response to Findings

The Tri-County Educational Service Center's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Tri-County Educational Service Center's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Tri-County Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Tri-County Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Julian & Grube, Inc.

Julian & Grube, Inc.
October 26, 2017

Julian & Grube, Inc.
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Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Tri-County Educational Service Center
Wayne County
741 Winkler Drive
Wooster, Ohio 44691

To the Governing Board:

Report on Compliance for Each Major Federal Program

We have audited the Tri-County Educational Service Center's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Tri-County Educational Service Center's major federal programs for the fiscal year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Tri-County Educational Service Center's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the Tri-County Educational Service Center's compliance for each of the Tri-County Educational 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 Tri-County Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Tri-County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

The Tri-County Educational Service Center's response to our noncompliance finding is described in the accompanying corrective action plan. We did not audit the Tri-County Educational Service Center's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

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

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

Julian & Grube, Inc.

Julian & Grube, Inc.
October 26, 2017

TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017

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

TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2017-001

Noncompliance

Ohio Rev. Code § 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The ESC prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.* This presentation differs from GAAP. There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the ESC being fined or other administrative remedies.

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2017-002
CFDA Title and Number	Special Education Grant Cluster, CFDA # 84.027 and # 84.173
Federal Award Number/Year	2017 / 2016
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance

2 CFR §200.430, Standards for Documentation of Personnel Expenses, provides, in part, that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

In fiscal year 2017, employees charged to the Special Education Grants Cluster did not maintain semiannual certifications or other documentation to support the amount charged to each grant. These expenditures were determined to be allowable per the grant agreements based on the employee's position within the ESC.

Failure to maintain support for payroll charged to grant funds could lead to the ESC having to pay back unsupported expenses as well as effecting future federal funding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - (Continued)

We recommend the ESC account for the total activity for which each employee is compensated, and obtain a certification signature of the employee and/or supervisor. These personnel activity reports should be completed semi-annually for employees that are paid solely from a single federal grant and/or cost objective. For those employees who receive their compensation from more than one federal grant cost objective, time and effort reporting, or a substitute method of reporting should be performed at least semi-annually, and monitored on an ongoing basis. These records should then be used to adjust budgeted grant costs to actual grant costs periodically. We further recommend an effective system of reconciling the personnel activity reports with the actual payroll costs charged to each federal grant cost and cost objective to ensure the completeness and accuracy of charges made to each program by the grant coordinators.

TRI-COUNTY EDUCATIONAL SERVICE CENTER

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash-basis of accounting will accurately reflect the ESC's financial position and allow for those resources previously spent on GAAP to be allocated to educational purposes.	N/A	Mary Workman, Treasurer
2017-002	It has been communicated to the grant supervisor that time - and - effort logs and/or semi-annual single funding source certifications must be completed for any employee paid with federal funds.	October 26, 2017	Mary Workman, Treasurer

TRI-COUNTY EDUCATIONAL SERVICE CENTER
WAYNE COUNTY, OHIO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR § 200.515
JUNE 30, 2017

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2016-001	2012	Noncompliance - Ohio Administrative Code Section 117-2-03(B) requires the ESC to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The ESC prepared its annual financial report in accordance with the cash basis of accounting.	No	Repeated as finding 2017-001, the ESC has not changed the accounting basis it used to prepare its annual financial report from cash basis to GAAP.

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TRI COUNTY EDUCATIONAL SERVICE CENTER

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 7, 2017

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