



Dave Yost • Auditor of State



**EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY  
MEDINA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Medina County  
Medina County  
124 West Washington Street  
Medina, Ohio 44256

To the Board of Governors:

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

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

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

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

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

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

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

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

**Opinion**

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

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2018, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

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

August 29, 2018

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*(Unaudited)*

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

***Financial Highlights***

Key financial highlights for 2016 are as follows:

- Net position increased \$614,822 from 2015.
- Capital assets decreased \$10,017 during 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 Educational Service Center 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 Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Educational Service Center, the general fund is by far the most significant fund.

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

*Statement of Net Position and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources (except fiduciary funds) using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**Educational Service Center of Medina County**  
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In the *Statement of Net Position* and the *Statement of Activities*, Governmental Activities include the Educational Service Center's programs and services, including instruction, support services and extracurricular activities.

***Reporting the Educational Service Center's Most Significant Funds***

***Fund Financial Statements***

The fund financial statements begin on page 14. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental fund is the general fund.

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

***Reporting the Educational Service Center's Fiduciary Responsibilities***

The Educational Service Center is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The Educational Service Center also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Educational Service Center's fiduciary activities are reported in separate *Statements of Fiduciary Net Position* and *Changes in Fiduciary Net Position* on pages 18 and 19. These activities are excluded from the Educational Service Center's other financial statements because the assets cannot be utilized by the Educational Service Center to finance its operations.



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**The Educational Service Center as a Whole**

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

**Table 1**  
**Net Position**

	Governmental Activities	
	2016	2015
<b>Assets</b>		
Current and Other Assets	\$ 2,571,431	\$ 2,039,988
Capital Assets	95,347	105,364
<i>Total Assets</i>	<u>2,666,778</u>	<u>2,145,352</u>
<b>Deferred Outflows of Resources</b>		
Pension	915,851	570,688
<b>Liabilities</b>		
Other Liabilities	363,162	462,931
Long-Term Liabilities:		
Due Within One Year	41,182	43,621
Due in More Than One Year		
Net Pension Liability	8,549,304	7,475,969
Other Amounts	83,433	80,958
<i>Total Liabilities</i>	<u>9,037,081</u>	<u>8,063,479</u>
<b>Deferred Inflows of Resources</b>		
Pension	593,664	1,315,499
<b>Net Position</b>		
Investment in Capital Assets	95,347	105,364
Restricted	85,251	114,157
Unrestricted	(6,228,714)	(6,882,459)
<i>Total Net Position</i>	<u>\$ (6,048,116)</u>	<u>\$ (6,662,938)</u>

During 2015, the Educational Service Center adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the Educational Service Center's proportionate share of each plan's collective:

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

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

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

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

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At year end, capital assets represented 4 percent of total assets. Capital assets include furniture, fixtures, equipment and vehicles. Investment in capital assets was \$95,347 at June 30, 2016. These capital assets are used to provide services to students and are not available for future spending.

A portion of the Educational Service Center's net position, \$85,251 represents resources that are subject to external restrictions on how they may be used. The government-wide unrestricted net position was a deficit of \$6,228,714 in fiscal year 2016, which is primarily caused by GASB Statement No. 68.

In 2016, current and other assets increased \$531,443 primarily as a result of an increase in cash due to the timing of revenues to cover expenditures. Deferred outflows related to pension increased \$345,163 from fiscal year 2015, net pension liability increased \$1,073,335 and deferred inflows related to pension decreased \$721,835 due to GASB 68.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2016	2015
<b><i>Revenues</i></b>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 4,390,279	\$ 4,884,307
Operating Grants, Contributions and Interest	109,866	109,916
<b><i>Total Program Revenues</i></b>	<b>4,500,145</b>	<b>4,994,223</b>
<i>General Revenues:</i>		
Grants and Entitlements Not Restricted	817,346	824,653
Miscellaneous	16,144	137,785
<b><i>Total General Revenues</i></b>	<b>833,490</b>	<b>962,438</b>
<b><i>Total Revenues</i></b>	<b>5,333,635</b>	<b>5,956,661</b>
<b><i>Program Expenses</i></b>		
<i>Instruction:</i>		
Regular	443,943	977,362
Special	910,336	372,572
Adult/Continuing	30,536	18,491

(continued)

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*(Unaudited)*

	Governmental Activities	
	2016	2015
Support Services:		
Pupils	543,328	692,323
Instructional Staff	896,322	1,684,709
Board of Governors	23,199	60,001
Administration	357,413	296,689
Fiscal	258,495	237,622
Business	126,990	133,220
Operation and Maintenance of Plant	5,579	0
Pupil Transportation	445,721	417,926
Central	641,796	497,410
Operation of Non-Instructional Services		
Community Services	6,600	0
Extracurricular Activities	28,555	29,742
<i>Total Expenses</i>	<u>4,718,813</u>	<u>5,418,067</u>
<i>Increase (Decrease) in Net Position</i>	<u>614,822</u>	<u>538,594</u>
<i>Net Position at Beginning of Year</i>	<u>(6,662,938)</u>	<u>(7,201,532)</u>
<i>Net Position at End of Year</i>	<u>\$ (6,048,116)</u>	<u>\$ (6,662,938)</u>

Charges for services decreased \$494,028 due, in part, to a decrease in comprehensive substitute and nursing services. This decrease in substitute services also accounts for most of the \$788,387 decrease in expenses for instructional staff. The Educational Service Center changed the coding in fiscal year 2016 for certain regular and special instruction expenses to more accurately reflect their purpose, accounting for the fluctuation in those expenses from fiscal year 2015. In general, fluctuations in revenues and expenses can occur based on the changing needs and service requests of member districts.

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.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*(Unaudited)*

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2016	2015	2016	2015
Instruction:				
Regular	\$ 443,943	\$ 977,362	\$ 103,668	\$ 60,271
Special	910,336	372,572	20,857	31,126
Adult/Continuing	30,536	18,491	(5,448)	18,133
Support Services:				
Pupils	543,328	692,323	(11,372)	63,627
Instructional Staff	896,322	1,684,709	4,334	117,524
Board of Governors	23,199	60,001	941	5,942
Administration	357,413	296,689	11,052	23,599
Fiscal	258,495	237,622	325	21,953
Business	126,990	133,220	28,570	15,732
Operation and Maintenance of Plant	5,579	0	2	0
Pupil Transportation	445,721	417,926	42,616	23,799
Central	641,796	497,410	22,341	38,220
Operation of Non-Instructional Services				
Community Services	6,600	0	351	0
Extracurricular Activities	28,555	29,742	431	3,918
<i>Total Expenses</i>	<b>\$ 4,718,813</b>	<b>\$ 5,418,067</b>	<b>\$ 218,668</b>	<b>\$ 423,844</b>

For all governmental activities, program receipts support is 95 percent. The primary support of the Educational Service Center is contracted fees and services provided to member districts; however, it is the intention of the Board of Governors not to overcharge the districts served and to utilize the general revenues to offset the cost of programs to member districts.

***Governmental Funds***

Information about the Educational Service Center's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting.

The governmental fund's net change in fund balance for fiscal year 2016 was an increase of \$634,551. The most significant change within the Educational Service Center was reported in the general fund with an increase in fund balance of \$662,272 for similar reasons previously discussed.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*  
*(Unaudited)*

***Capital Assets***

**Capital Assets**

At the end of fiscal year 2016, the Educational Service Center had \$95,347 invested in capital assets, net of depreciation. Table 4 shows fiscal year 2016 balances compared with 2015.

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

	Governmental Activities	
	2016	2015
Furniture, Fixtures and Equipment	\$ 28,870	\$ 35,759
Vehicles	66,477	69,605
<i>Totals</i>	\$ 95,347	\$ 105,364

The \$10,017 decrease in capital assets was attributable to depreciation and disposals exceeding additional purchases. See Note 8 for more information about the capital assets of the Educational Service Center.

***Current Issues***

The Educational Service Center of Medina County is financially stable and continues to offer a wide variety of services to school districts in Medina County and beyond. The Educational Service Center strives to be the leader in providing services and products that promote excellence in education. Through on-going communication with our client districts, the Educational Service Center is constantly evaluating avenues to be of further service to our clients. The environment in which Educational Service Centers operate remains challenging and fortunes can change quickly but, the Educational Service Center of Medina County believes it is well positioned to continue to provide cost effective services to our client districts far into the future.

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer at Educational Service Center of Medina County, 124 W. Washington St., Medina, Ohio 44256 or call 330-723-6393.

## BASIC STATEMENTS

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Statement of Net Position*  
*June 30, 2016*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 2,520,416
Receivables:	
Accounts	51,015
Depreciable Capital Assets (Net)	95,347
<i>Total Assets</i>	2,666,778
<b>Deferred Outflows of Resources</b>	
Pension	915,851
<b>Liabilities</b>	
Accounts Payable	2,516
Accrued Wages and Benefits	128,417
Intergovernmental Payable	48,790
Unearned Revenue	183,439
Long Term Liabilities:	
Due Within One Year	41,182
Due In More Than One Year:	
Net Pension Liability (See Note 10)	8,549,304
Other Amounts Due in More Than One Year	83,433
<i>Total Liabilities</i>	9,037,081
<b>Deferred Inflows of Resources</b>	
Pension	593,664
<b>Net Position</b>	
Investment in Capital Assets	95,347
Restricted For:	
Other Purposes	85,251
Unrestricted	(6,228,714)
<i>Total Net Position</i>	\$ (6,048,116)

See accompanying notes to the basic financial statements.



**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 443,943	\$ 338,959	\$ 1,316	\$ (103,668)
Special	910,336	889,479	0	(20,857)
Adult/Continuing	30,536	15,378	20,606	5,448
Support Services:				
Pupils	543,328	551,117	3,583	11,372
Instructional Staff	896,322	891,988	0	(4,334)
Board of Governors	23,199	22,258	0	(941)
Administration	357,413	346,361	0	(11,052)
Fiscal	258,495	258,170	0	(325)
Business	126,990	98,420	0	(28,570)
Operation and Maintenance of Plant	5,579	5,577	0	(2)
Pupil Transportation	445,721	318,845	84,260	(42,616)
Central	641,796	619,455	0	(22,341)
Operation of Non-Instructional Services				
Community Services	6,600	6,249	0	(351)
Extracurricular Activities	28,555	28,023	101	(431)
<b>Total</b>	<b>\$ 4,718,813</b>	<b>\$ 4,390,279</b>	<b>\$ 109,866</b>	<b>(218,668)</b>
<b>General Revenues</b>				
				817,346
Grants and Entitlements Not Restricted to Specific Programs				8,374
Investment Earnings				7,770
Miscellaneous				<u>833,490</u>
<i>Total General Revenues</i>				<u>833,490</u>
<i>Change in Net Position</i>				614,822
<i>Net Position Beginning of Year</i>				<u>(6,662,938)</u>
<i>Net Position End of Year</i>				<u><u>\$ (6,048,116)</u></u>

See accompanying notes to the basic financial statements.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Investments	\$ 2,408,603	\$ 111,813	\$ 2,520,416
Receivables:			
Accounts	44,460	6,555	51,015
<i>Total Assets</i>	<u>\$ 2,453,063</u>	<u>\$ 118,368</u>	<u>\$ 2,571,431</u>
<b>Liabilities</b>			
Accounts Payable	\$ 2,516	\$ 0	\$ 2,516
Accrued Wages and Benefits	128,129	288	128,417
Intergovernmental Payable	48,519	271	48,790
Unearned Revenue	183,439	0	183,439
<i>Total Liabilities</i>	<u>362,603</u>	<u>559</u>	<u>363,162</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue	1,072	3,745	4,817
<b>Fund Balances</b>			
Restricted	0	81,506	81,506
Committed	0	30,100	30,100
Assigned	576,566	2,458	579,024
Unassigned	1,512,822	0	1,512,822
<i>Total Fund Balances</i>	<u>2,089,388</u>	<u>114,064</u>	<u>2,203,452</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,453,063</u>	<u>\$ 118,368</u>	<u>\$ 2,571,431</u>

See accompanying notes to the basic financial statements.

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

<b>Total Governmental Fund Balances</b>		\$ 2,203,452
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		95,347
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition		4,817
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		
Deferred Outflows - Pension	\$ 915,851	
Deferred Inflows - Pension	(593,664)	
Net Pension Liability	(8,549,304)	(8,227,117)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences		(124,615)
 <i>Net Position of Governmental Activities</i>		 \$ (6,048,116)

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$ 817,345	\$ 104,866	\$ 922,211
Investment Income	8,374	0	8,374
Tuition and Fees	203,826	0	203,826
Customer Sales and Services	4,096,297	93,470	4,189,767
Gifts and Donations	437	5,000	5,437
Miscellaneous	7,259	100	7,359
<i>Total Revenues</i>	<u>5,133,538</u>	<u>203,436</u>	<u>5,336,974</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	343,545	6,653	350,198
Special	928,972	0	928,972
Adult/Continuing	0	41,261	41,261
Support Services:			
Pupils	556,476	18,113	574,589
Instructional Staff	915,034	0	915,034
Board of Governors	23,291	0	23,291
Administration	358,849	0	358,849
Fiscal	267,599	0	267,599
Business	103,529	0	103,529
Operation and Maintenance of Plant	5,760	0	5,760
Pupil Transportation	265,521	189,621	455,142
Central	642,439	0	642,439
Extracurricular Activities	28,651	509	29,160
Operation of Non-Instructional Services			
Community Services	6,600	0	6,600
<i>Total Expenditures</i>	<u>4,446,266</u>	<u>256,157</u>	<u>4,702,423</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>687,272</u>	<u>(52,721)</u>	<u>634,551</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	25,000	25,000
Transfers Out	(25,000)	0	(25,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(25,000)</u>	<u>25,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	662,272	(27,721)	634,551
<i>Fund Balances Beginning of Year</i>	<u>1,427,116</u>	<u>141,785</u>	<u>1,568,901</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,089,388</u>	<u>\$ 114,064</u>	<u>\$ 2,203,452</u>

See accompanying notes to the basic financial statements.

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

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	634,551
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	\$ 36,300	
Current Year Depreciation	<u>(45,272)</u>	(8,972)
 Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(1,045)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition		(3,339)
 Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		431,394
 Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(437,731)
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		<u>(36)</u>
 <i>Change in Net Position of Governmental Activities</i>	 \$	 <u>614,822</u>

See accompanying notes to the basic financial statements.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2016*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Investments	\$ 117,360	\$ 42
<b>Liabilities</b>		
Undistributed Monies	0	\$ 42
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 117,360	

See accompanying notes to the basic financial statements.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$ 1,625
Investment Earnings	1,253
<i>Total Additions</i>	2,878
 <b>Deductions</b>	
Payments in Accordance with Trust Agreements	1,500
<i>Change in Net Position</i>	1,378
<i>Net Position Beginning of Year</i>	115,982
<i>Net Position End of Year</i>	\$ 117,360

See accompanying notes to the basic financial statements.

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## **Educational Service Center of Medina County**

### **Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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#### **Note 1 – Nature of Basic Operations and Description of the Entity**

The Educational Service Center of Medina County (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies.

#### ***Reporting Entity***

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

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

The Educational Service Center is associated with the Northeast Ohio Network for Educational Technology (NEOnet) which is defined as a Jointly Governed Organization, the Northcoast Shared Services Alliance, a Jointly Governed Organization with the Educational Service Center of Cuyahoga County and the Educational Service Center of Lorain County for substitute services, Connect, a Jointly Governed Organization with the Educational Service Center of Cuyahoga County and the Educational Service Center of Lorain County for technology support, the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 7 to the basic financial statements.

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

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

## **Educational Service Center of Medina County**

### **Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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Following are the most significant of the Educational Service Center's accounting policies.

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

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

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

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

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

#### ***Fund Accounting***

The Educational Service Center uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

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

**Educational Service Center of Medina County  
Medina County, Ohio**

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

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**General Fund** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**Fiduciary Funds** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has one private purpose trust fund which is used to account for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for donations to the County court system and resources held on behalf of member districts.

**Measurement Focus**

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

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

The private purpose trust fund is reported using the economic resources measurement focus and is excluded from the governmental activities. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net position. The statement of changes in fiduciary net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Agency funds do not report a measurement focus as they do not report operations.

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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***Basis of Accounting***

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

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

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

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

***Deferred Inflows of Resources and Deferred Outflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include pension and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue may include intergovernmental grants and miscellaneous revenues. These amounts are deferred and recognized

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10).

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

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

***Budgetary Data***

Although not legally required, the Educational Service Center adopts a 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 Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

In fiscal year 2004, the Educational Service Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center was discretionary, the Educational Service Center continued to have its Board approve appropriations and estimated revenues. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

***Cash and Investments***

To improve cash management, all cash received by the Educational Service Center 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 Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet.

During fiscal year 2016, investments were limited to certificates of deposit and STAR Ohio, (the State Treasurer's Investment Pool). Except for investment contracts that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

## Educational Service Center of Medina County

### Medina County, Ohio

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

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

Following Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$8,374 which includes \$871 assigned from other Educational Service Center funds. Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as "Equity in Pooled Cash and Investments." Investments with an original maturity of more than three months are reported as "Investments."

#### ***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and construction in progress (when applicable), are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture, Fixtures and Equipment	5 - 10 Years
Vehicles	5 Years

#### ***Interfund Balances***

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

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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***Compensated Absences***

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

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

***Pensions***

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

***Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

***Interfund Activity***

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

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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***Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2016, there was no net position restricted by enabling legislation.

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

***Fund Balance***

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Educational Service Center 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 Educational Service Center Governing Board. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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



## **Educational Service Center of Medina County**

### **Medina County, Ohio**

#### *Notes to the Basic Financial Statements*

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

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

#### ***Estimates***

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

#### ***Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2016, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Educational Service Center.

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Educational Service Center.

**Note 3 – Fund Balance**

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

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

	General	Other Governmental Funds	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Restricted for:			
Training	\$      0	\$   72,606	\$   72,606
Other Purposes	0	8,900	8,900
Total Restricted	<u>0</u>	<u>81,506</u>	<u>81,506</u>
Committed to:			
Capital Projects	0	30,100	30,100
Assigned for:			
Encumbrances:			
Instruction	7,876	0	7,876
Support Services	61,936	0	61,936
Service Program Fees	506,754	0	506,754
Capital Projects	0	2,458	2,458
Total Assigned	<u>576,566</u>	<u>2,458</u>	<u>579,024</u>
Unassigned	<u>1,512,822</u>	<u>0</u>	<u>1,512,822</u>
Total Fund Balance (Deficit)	<u>\$  2,089,388</u>	<u>\$   114,064</u>	<u>\$  2,203,452</u>

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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**Note 4 - Deposits and Investments**

State statutes classify monies held by the Educational Service Center 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 Educational Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Governors has identified as not required for use within the current two 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.

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

Interim monies are to 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,

## Educational Service Center of Medina County

### Medina County, Ohio

#### *Notes to the Basic Financial Statements*

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provided that investments in securities described in these divisions are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Educational Service Center cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the Educational Service Center's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Educational Service Center's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

**Deposits:** The carrying value of the Educational Service Center's deposits totaled \$2,534,454 and the bank balances of the deposits totaled \$2,657,598. \$658,281 of the bank balance was covered by federal depository insurance and \$1,999,317 was exposed to custodial credit risk as described above. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

**Educational Service Center of Medina County**

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**Investments**

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

	Measurement Value	Investment Maturities (in months)		% Total Investment
		0 - 6	Over 24	
STAR Ohio	\$ 103,364	\$103,364	\$ 0	100.00%

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center.

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, 2016, is 49 days.

**Credit Risk:** The Educational Service Center's investments at June 30, 2016 in STAR Ohio are rated AAAM by S&P Global Ratings.

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

**Note 5 - Receivables**

Receivables at June 30, 2016 consisted of accounts (charges for services) receivable. All receivables are considered collectible within one year and in full.

**Note 6 – State Funding**

The Educational Service Center is funded through a combination of State and local funds. The bulk of State funding comes through the Ohio Department of Education to provide general support to all educational service centers based upon a single line-item amount provided to ESCs as part of the State's biennium budget. That general support amount provided to ESCs equaled \$26.95 per student for fiscal year 2016. The total amount of this (general support) funding is based upon the ADM (Average Daily Membership) of the Educational Service Centers aligned with the Educational Service Center multiplied by the per student dollar figure.

The Ohio Department of Education also withholds \$6.50 per ADM from Educational Service Centers aligned with the Educational Service Center and remits those amounts to the Educational Service Center over the course of the fiscal year.

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The Educational Service Center also receives an annual amount of funding (distributed monthly) from the Ohio Department of Education to support a regional bus driver training program. The Educational Service Center of Medina County is one of eight regional sponsors of the state-wide bus driver training program.

The Educational Service Center also receives unit funding from the Ohio Department of Education that partially funds Gifted and Talented Coordinators who are employed by the Educational Service Center and provide services to contracting school districts.

State funding is subject to changes (which could be substantial) with each biennium State budget.

**Note 7 – Jointly Governed Organizations and Public Entity Risk Pools**

***Jointly Governed Organizations***

Northeast Ohio Network for Educational Technology

The Northeast Ohio Network for Educational Technology (NEOnet) is a consortium of school districts, including educational service centers which have voluntarily formed in order to provide for the schools' common needs. NEOnet is 1 of 23 sites in the Ohio Education Computer Network providing computer services to schools in their respective geographic areas. NEOnet serves school districts and educational service centers primarily in Summit, Medina and Portage Counties. The governance of NEOnet is controlled by an Assembly, Board of Directors and several subcommittees. The Agreement explains the role of each group and the methods used to make decisions. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

North Coast Shared Services Alliance (NCSSA)

NCSSA is a jointly governed organization among the Service Center, the Educational Service Center of Cuyahoga County, the Educational Service Center of Lorain County, and a private sector substitute provider, Rachel Wixey and Associates. The jointly governed organization was formed for the purpose of providing substitute management and human resources services to school districts throughout the region. Each of the educational service centers supports NCSSA based on services provided to the school districts. The degree of control exercised by any participating educational service center is limited to the contractually agreed upon duties with regard to substitute services. The Educational Service Center of Cuyahoga County serves as the fiscal agent.

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#### Connect

As of April 1, 2016, the Educational Service Centers of Medina, Cuyahoga and Lorain Counties along with the Ohio Schools Council assumed ownership of the Information Technology Center (ITC) formally known as North Coast Council (NCC). Per the Owner-Member Agreement, ninety-five percent of the ownership of the organization is allocated among the three educational service centers based upon the proportion of students in each of the three counties that are served by Connect. The purpose of the organization is to maintain and expand technology and support services to member organizations. Further information may be obtained by contacting the Director at 5700 West Canal Road, Valley View, Ohio, 44125.

#### ***Insurance Purchasing Pool***

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program (WCGRP) was established as an insurance purchasing pool.

The WCGRP'S business and affairs are conducted by a nine member Board of Directors of the Ohio Schools Council (OSC) consisting of a Chairman, Vice Chairman, Past Chairman as well as 6 Directors. The Chairman of the OSC, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

#### ***Risk Sharing Pool***

The Stark County Schools Council of Governments (the Council) is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding 12 month period.

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**Note 8 - Capital Assets**

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

	Balance 7/1/15	Additions	Deletions	Balance 6/30/16
<b>Governmental Activities</b>				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures and Equipment	\$ 274,652	\$ 15,400	\$ (44,058)	\$ 245,994
Vehicles	202,569	20,900	(12,479)	210,990
Total Capital Assets, being depreciated	<u>477,221</u>	<u>36,300</u>	<u>(56,537)</u>	<u>456,984</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(238,893)	(21,244)	43,013	(217,124)
Vehicles	(132,964)	(24,028)	12,479	(144,513)
Total Accumulated Depreciation	<u>(371,857)</u>	<u>(45,272)</u>	<u>55,492</u>	<u>(361,637)</u>
Governmental Activities Capital Assets, Net	<u>\$ 105,364</u>	<u>\$ (8,972)</u>	<u>\$ (1,045)</u>	<u>\$ 95,347</u>

Depreciation expense was charged as follows:

<b>Governmental Activities:</b>	
Instruction:	
Adult Education	\$ 2,249
Support Services:	
Pupil	102
Instructional Staff	7,536
Business	24,018
Pupil Transportation	11,269
Central	<u>98</u>
Total Depreciation	<u>\$ 45,272</u>

**Note 9 - Risk Management**

***Property and Liability***

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Educational Service Center contracted with Leonard Insurance Company for a Commercial Package Policy starting September 1, 2015 through August 31, 2016. The policy covers all furniture and equipment that has a value equal or greater than \$500. In addition, the Commissioners of Medina County provide insurance coverage for the contents of the office space they provide to the Educational Service Center.



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Professional liability was protected by the Leonard Insurance Company starting September 1, 2015 through August 31, 2016. Coverage is \$2,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible for each claim. An Umbrella increases the annual aggregate by \$3,000,000 and each occurrence by \$2,000,000. A school leader's error and omissions policy is also provided by Leonard Insurance Company with an aggregate limit of \$1,000,000 and a deductible of \$2,500. Vehicles were covered by the Leonard Insurance Company as well. The policy holds a \$250 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and non-owned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

For fiscal year 2016, the Educational Service Center participated in the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 7). The Program is intended to reduce premiums for the participants. The workers' compensation experience history of all group members is compared to an expected losses figure and a group discount rate is calculated. The group discount rate is then applied to the premium owed by the Educational Service Center. Participation in the program is limited to agencies that can meet the selection criteria. Agencies apply for participation each year. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

**Note 10 - Defined Benefit Pension Plans**

***Net Pension Liability***

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

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

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

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

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

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

Plan Description – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, 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 2016.

The Educational Service Center's contractually required contribution to SERS was \$200,472 for fiscal year 2016. Of this amount, \$4,357 is reported as an intergovernmental payable.

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

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

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$230,922 for fiscal year 2016. Of this amount, \$13,723 is reported as an intergovernmental payable.

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

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

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	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 5,341,205	\$ 3,208,099	\$ 8,549,304
Proportion of the Net Pension Liability	0.01932623%	0.05622230%	
Pension Expense	\$ 259,208	\$ 178,523	\$ 437,731

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

	STRS	SERS	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 242,033	\$ 52,494	\$ 294,527
Changes in proportionate share	189,930	0	189,930
Educational Service Center contributions subsequent to the measurement date	230,922	200,472	431,394
<b>Total Deferred Outflows of Resources</b>	<b>\$ 662,885</b>	<b>\$ 252,966</b>	<b>\$ 915,851</b>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 356,106	\$ 122,335	\$ 478,441
Changes in proportionate share	0	115,223	115,223
<b>Total Deferred Inflows of Resources</b>	<b>\$ 356,106</b>	<b>\$ 237,558</b>	<b>\$ 593,664</b>

\$431,394 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2017	\$ (30,348)	\$ (80,478)	\$ (110,826)
2018	(30,348)	(80,478)	(110,826)
2019	(30,347)	(80,736)	(111,083)
2020	166,900	56,628	223,528
	<b>\$ 75,857</b>	<b>\$ (185,064)</b>	<b>\$ (109,207)</b>

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***Actuarial Assumptions - SERS***

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

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

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

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

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

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

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

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

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Educational Service Center's proportionate share of the net pension liability	\$ 4,448,480	\$ 3,208,099	\$ 2,163,595

**Changes Between Measurement Date and Report Date** In April 2016, the SERS Board adopted certain assumption changes, which impacted their annual actuarial valuation prepared as of June 30, 2015. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the ESC's net pension liability is expected to be significant.

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

***Actuarial Assumptions – STRS***

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

Inflation	2.75 percent
Projected Salary Increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 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, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

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



**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$ 7,419,336	\$ 5,341,205	\$ 3,583,835

**Note 11 - Postemployment Benefits**

***School Employees Retirement System***

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 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 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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The Educational Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$28,934, \$42,429 and \$31,581, respectively. For fiscal year 2016, 98 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

***State Teachers Retirement System***

Plan Description – The Educational Service Center 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](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$19,051, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**Note 12 - Employee Benefits**

***Compensated Absences***

Certified and Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time up to five days of the prorated share of the current year is paid to all employees upon termination of employment. Administrators, supervisors, certified and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 60 days.

***Life Insurance***

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through Educational Employees Life Insurance Trust.

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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**Note 13 - Long - Term Obligations**

The changes in the Educational Service Center's long-term obligations during the fiscal year consist of the following:

	Balance 7/1/15	Additions	Reductions	Balance 6/30/16	Amounts Due in One Year
<b>Governmental Activities:</b>					
Net Pension Liability					
STRS	\$ 4,498,819	\$ 842,386	\$ 0	\$ 5,341,205	\$ 0
SERS	2,977,150	230,949	0	3,208,099	0
Total Net Pension Liability	<u>7,475,969</u>	<u>1,073,335</u>	<u>0</u>	<u>8,549,304</u>	<u>0</u>
Compensated Absences	<u>124,579</u>	<u>41,839</u>	<u>41,803</u>	<u>124,615</u>	<u>41,182</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 7,600,548</u>	<u>\$ 1,115,174</u>	<u>\$ 41,803</u>	<u>\$ 8,673,919</u>	<u>\$ 41,182</u>

Compensated absences will be paid from the general fund. The Educational Service Center pays obligations to employee compensation from the fund benefitting from their service.

**Note 14 – Contingencies**

***Grants***

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

***Litigation***

The Educational Service Center is not party to any claims or lawsuits that would, in the Educational Service Center's opinion, have a material effect of the basic financial statements.

**Educational Service Center of Medina County**

**Medina County, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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***Educational Service Center Funding***

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the Educational Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Educational Service Center.

**Note 15 – Interfund Transfers**

In fiscal year 2016, general fund transferred \$25,000 to the capital projects fund to cover capital expenditures.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*Last Three Fiscal Years (1)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
Educational Service Center's Proportion of the Net Pension Liability	0.01932623%	0.01849580%	0.01849580%
Educational Service Center's Proportionate Share of the Net Pension Liability \$	5,341,205	\$ 4,498,819	\$ 5,358,963
Educational Service Center's Covered-Employee Payroll \$	2,011,900	\$ 1,905,138	\$ 2,056,254
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	265.48%	236.14%	260.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>			
Educational Service Center's Proportion of the Net Pension Liability	0.05622230%	0.05882600%	0.05882600%
Educational Service Center's Proportionate Share of the Net Pension Liability \$	3,208,099	\$ 2,977,150	\$ 3,498,193
Educational Service Center's Covered-Employee Payroll \$	1,672,018	\$ 1,757,850	\$ 1,693,598
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	191.87%	169.36%	206.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

**Educational Service Center of Medina County**  
**Medina County, Ohio**  
*Required Supplementary Information*  
*Schedule of Educational Service Center Contributions*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 230,922	\$ 281,666	\$ 247,668	\$ 267,313
Contributions in Relation to the Contractually Required Contribution	<u>(230,922)</u>	<u>(281,666)</u>	<u>(247,668)</u>	<u>(267,313)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Educational Service Center's Covered-Employee Payroll	\$ 1,649,443	\$ 2,011,900	\$ 1,905,138	\$ 2,056,254
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 200,472	\$ 220,372	\$ 243,638	\$ 234,394
Contributions in Relation to the Contractually Required Contribution	<u>(200,472)</u>	<u>(220,372)</u>	<u>(243,638)</u>	<u>(234,394)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Educational Service Center's Covered-Employee Payroll	\$ 1,431,943	\$ 1,672,018	\$ 1,757,850	\$ 1,693,598
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

n/a - Information prior to 2008 is not available.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 258,226	\$ 334,399	\$ 194,973	\$ 189,843	\$ 165,958	\$ 137,214
<u>(258,226)</u>	<u>(334,399)</u>	<u>(194,973)</u>	<u>(189,843)</u>	<u>(165,958)</u>	<u>(137,214)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,986,354	\$ 2,572,300	\$ 1,499,792	\$ 1,460,331	\$ 1,276,600	\$ 1,055,492
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 226,917	\$ 228,677	\$ 243,720	\$ 159,587	\$ 137,788	n/a
<u>(226,917)</u>	<u>(228,677)</u>	<u>(243,720)</u>	<u>(159,587)</u>	<u>(137,788)</u>	n/a
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	n/a
\$ 1,687,115	\$ 1,819,228	\$ 1,800,000	\$ 1,621,819	\$ 1,403,136	n/a
13.45%	12.57%	13.54%	9.84%	9.82%	n/a

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# Dave Yost • Auditor of State

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

Educational Service Center of Medina County  
Medina County  
124 West Washington Street  
Medina, Ohio 44256

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Medina County, Medina County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated August 29, 2018.

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

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

August 29, 2018