JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY

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JEFFERSON COUNTY

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INDEPENDENT AUDITOR'S REPORT

Jefferson County Educational Service Center
Jefferson County
2023 Sunset Blvd.
Steubenville, Ohio 43952

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson County Educational Service Center, Jefferson County, Ohio (the Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District'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 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 Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson County Educational Service Center, Jefferson County, Ohio, as of June 30, 2015, and the respective changes in financial position, and were applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Government adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

We did not subject the Schedules of Revenue, Expenditures, and Changes in Fund Balance- Budget (Budgetary Basis) and Actual to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2017, on our consideration of the 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 Center's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

April 4, 2017

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JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The management's discussion and analysis of the Jefferson County Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- In total, net assets of governmental activities decreased $212,537 which represents an 8.79% decrease from 2014 as restated in Note 3.A. to the basic financial statements.

- General revenues accounted for $764,140 in revenue or 13.78% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $4,780,248 or 86.22% of total revenues of $5,544,388.

- The ESC had $5,756,925 in expenses related to governmental activities; $4,780,248 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of $764,140 were not adequate to provide for these programs.

- The ESC's major governmental funds are the general fund and the alternative schools fund. The general fund had $5,424,494 in revenues and other financing sources and $5,632,740 in expenditures. During fiscal year 2015, the general fund's fund balance decreased $208,246 from $2,395,554 to $2,187,308.

- The alternative schools fund had $54,149 in revenues and $55,572 in expenditures. During fiscal year 2015, the alternative schools fund's fund balance decreased $1,423 from a deficit balance of $3,551 to a deficit fund balance of $4,974.

Using the Basic Financial Statements (BFS)

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

The statement of net position and statement of activities provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC'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 ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, however both the general fund and the alternative schools funds are the governmental funds reported as a major funds.

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The statement of net position and statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net position and changes in that position. This change in net position is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

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

The ESC's statement of net position and statement of activities can be found on pages 17-18 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 14. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and the alternative schools fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer 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 statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary Funds

The ESC maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC's internal service fund accounts for medical/surgical, vision and dental self-insurance. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, Ohio Mid-Eastern Regional Education Service Agency ("OME-RESA") and the Jefferson Health Plan. This activity is presented as agency funds that, along with other agency funds, account for monies due to other governments, individuals or private organizations. The ESC is also the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 26 and 27. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28-56 of this report.

Supplementary Information

The ESC has presented budgetary comparison schedules for the general fund and the alternative schools fund as supplementary information on pages 57-60 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the ESC's net pension liability. The required supplementary information can be found on pages 61-67 of this report.

The ESC as a Whole

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

The table below provides a summary of the ESC's net position for fiscal years 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

Net Position

	Governmental Activities 2015	Restated Governmental Activities 2014
Assets		
Current and other assets	$ 3,753,092	$ 4,041,424
Capital assets, net	195,830	212,842
Total assets	3,948,922	4,254,266
Deferred outflows of resources		
Pension	451,386	335,108
Liabilities		
Current liabilities	359,492	294,365
Long-term liabilities:		
Due within one year	116,127	127,175
Due in more than one year:		
Net pension liability	5,456,494	6,475,673
Other amounts	122,517	109,651
Total liabilities	6,054,630	7,006,864
Deferred inflows of resources		
Pension	975,705	-
Net Position		
Net Investment in capital assets	182,086	212,491
Restricted	7,050	-
Unrestricted	(2,819,163)	(2,629,981)
Total net position	$ (2,630,027)	$ (2,417,490)

During 2015, the 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 Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the 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 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 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.

As a result of implementing GASB 68, the Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $3,723,075 to a deficit balance of $2,417,490.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the ESC's liabilities and deferred inflows exceeded assets and deferred outflows by $2,630,027, of this total; $7,050 is restricted in use.

At year-end, capital assets represented 4.96% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2015 was $182,086. These capital assets are used to provide the ESC's services and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

$7,050 of the ESC's net position is subject to external restriction on how it may be used. The remaining balance of unrestricted net position is a deficit of $2,819,163. The deficit balance of unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The table below shows the change in net position for fiscal years 2015 and 2014.

Change in Net Position

	Governmental Activities 2015	Governmental Activities 2014
Revenues		
Program revenues:		
Charges for services and sales	$ 4,587,425	$ 4,412,643
Operating grants and contributions	192,823	214,756
General revenues:		
Grants and entitlements	340,695	385,193
Investment earnings	16,957	4,802
Other	406,488	-
Total revenues	5,544,388	5,017,394

Change in Net Position

	Governmental Activities 2015	Governmental Activities 2014
Expenses		
Program expenses:		
Instruction:		
Regular	$ 145,582	$ 82,952
Special	734,966	600,250
Other	8,400	7,200
Support services:		
Pupil	1,003,774	966,923
Instructional staff	1,653,163	1,654,291
Board of education	15,990	16,431
Administration	1,890,334	1,008,746
Fiscal	249,993	249,716
Business	-	39,920
Operations and maintenance	37,570	25,667
Central	225	1,806
Operations of non-instructional services	16,423	8,936
Interest and fiscal charges	505	162
Total expenses	5,756,925	4,663,000
Change in net position	(212,537)	354,394
Net position at beginning of year (restated)	(2,417,490)	N/A
Net position at end of year (restated)	$ (2,630,027)	$ (2,417,490)

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of $335,108 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $240,763.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	$ 5,756,925
Pension expense under GASB 68	(240,763)
2015 contractually required contributions	400,515
Adjusted 2015 program expenses	5,916,677
Total 2014 program expenses under GASB 27	4,663,000
Increase (decrease) in program expenses not related to pension	$ 1,253,677

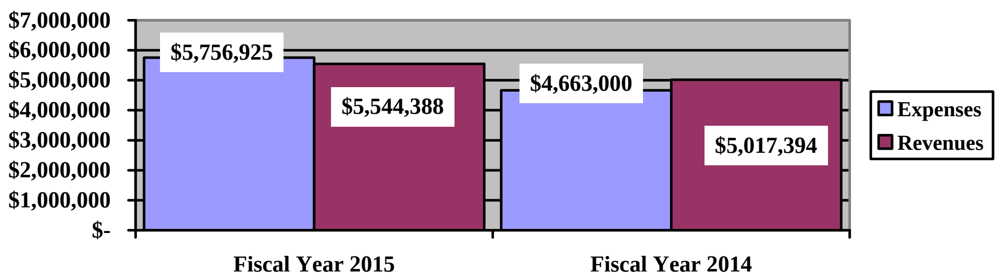
Net position of the ESC's governmental activities decreased $212,537. Total governmental expenses of $5,756,925 were offset by program revenues of $4,780,248 and general revenues of $764,140. Program revenues supported 83.03% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 82.74% of total governmental revenue.

The primary increase in expenses was in the area of support services – administration. This increase was due to increased personnel costs (salaries related benefits) related to new employees in the areas such as superintendent services, staff relations and negotiation services, education services, and other executive administration services.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2015 and 2014.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements, and other general revenues not restricted to a specific program.

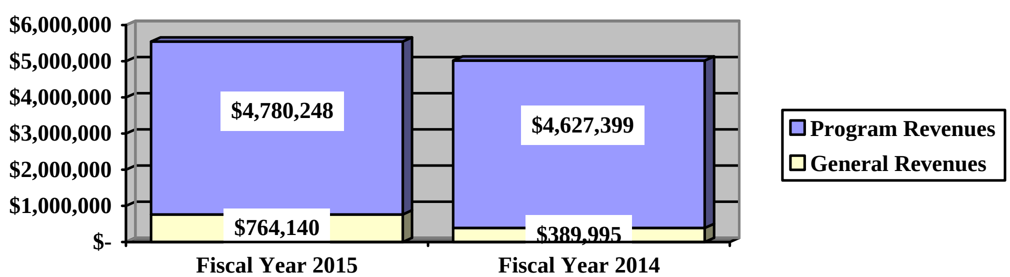
Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Program expenses				
Instruction:				
Regular	$ 145,582	$ 23,581	$ 82,952	$ 28
Special	734,966	196,222	600,250	(70,679)
Other	8,400	1,442	7,200	311
Support services:				
Pupil	1,003,774	163,179	966,923	(16,530)
Instructional staff	1,653,163	220,375	1,654,291	45,024
Board of education	15,990	2,745	16,431	18
Administration	1,890,334	319,633	1,008,746	57,199
Fiscal	249,993	34,421	249,716	8,725
Business	-	-	39,920	-
Operations and maintenance	37,570	6,206	25,667	2,401
Central	225	(1,575)	1,806	6
Operations of non-instructional services	16,423	9,943	8,936	8,936
Interest and fiscal charges	505	505	162	162
Total	$ 5,756,925	$ 976,677	$ 4,663,000	$ 35,601

For all governmental activities, program revenue support is 83.03%. The primary support of the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenue for fiscal years 2015 and 2014.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of $2,173,664, which is less than last year's total of $2,391,947. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	Fund Balance (deficit) June 30, 2015	Fund Balance (deficit) June 30, 2014	Decrease
General	$ 2,187,308	$ 2,395,554	$ (208,246)
Alternative schools	(4,974)	(3,551)	(1,423)
Other governmental	(8,670)	(56)	(8,614)
Total	$ 2,173,664	$ 2,391,947	$ (218,283)

General Fund

The ESC's general fund balance decreased $208,246. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2015 Amount	2014 Amount	Percentage Change
Revenues			
Services provided to other entities	$ 3,099,629	$ 2,978,871	4.05 %
Tuition	1,487,797	1,433,772	3.77 %
Earnings on investments	3,553	1,857	91.33 %
Intergovernmental	411,088	458,572	(10.35) %
Other revenues	406,488	-	100.00 %
Total	$ 5,408,555	$ 4,873,072	10.99 %
Expenditures			
Instruction	$ 756,446	$ 751,961	0.60 %
Support services	4,835,016	3,936,906	22.81 %
Operation of non-instructional services	22,288	8,936	149.42 %
Capital outlay	15,939	-	(100.00) %
Debt service	3,051	4,232	(27.91) %
Total	$ 5,632,740	$ 4,702,035	19.79 %

Intergovernmental revenue decreased 10.35%; mainly due to a decrease in foundation provided by the State. Earnings on investments revenue increased 91.33% primarily due an increase in interest rates earned on investments. Other revenues increased by 100.00% due mainly an amount received for special projects. Support services expenditures increased by 22.81% primarily due to increases in administrative spending. Capital outlay expenditures increased by 100.00% due to a new lease being issued during fiscal year 2015. All other revenue and expenditure items remained consistent with the prior fiscal year.

Alternative School's Fund

The alternative school's fund had $54,149 in revenues and $55,572 in expenditures. The alternative school's fund balance decreased $1,423 from a deficit balance of $3,551 to a deficit balance of $4,974. Expenditures of the alternative school's fund continued to exceed revenues resulting is a deficit fund balance.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the ESC had $195,830 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2015 balances compared to June 30, 2014:

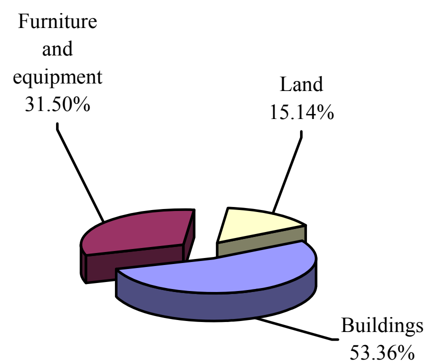
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2015	2014
Land	$ 29,642	$ 29,642
Buildings	104,504	108,405
Furniture and equipment	61,684	74,795
Total	$ 195,830	$ 212,842

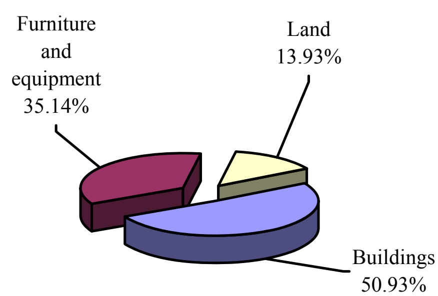
In total capital assets decreased $17,012 for fiscal year 2015. A total of $32,951 in depreciation expense was greater than total additions of $15,939 in fiscal year 2015.

The graphs below present the ESC's capital assets at June 30, 2015 and June 30, 2014.

Capital Assets - Governmental Activities 2015



Capital Assets - Governmental Activities 2014



See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2015 the ESC had $13,744 in capital lease obligations outstanding. The following table summarizes the capital lease obligations outstanding.

Outstanding Capital Lease Debt, at Year End

	Governmental Activities 2015	Governmental Activities 2014
Capital lease obligation	$ 13,744	$ 351
Total	$ 13,744	$ 351

See Note 9 to the basic financial statements for detail on the ESC's debt administration.

Current Financial Related Activities

The ESC is financially solvent. As the preceding information shows, the ESC relies heavily on contracts with local, city, and JVS school districts in Jefferson and Harrison Counties, as well as State foundation revenue, and grants. The need for additional services from local and city school districts, which is paid for by excess costs, State funding and grants will provide the ESC with necessary funds to meet operating expenses in fiscal year 2016. However, the future financial stability of the ESC is not without concerns.

Declining enrollment in Jefferson County remains a concern of the ESC. State funding for the ESC and the districts is based on average daily membership of participating school districts. Continued decline in enrollment will have a direct impact on state revenues received by school districts and the amount of services they will need from the ESC. As district revenues decline, they rely on the ESC for services and personnel they cannot employ at the district level. With no increases from the State, the ESC is forced to try to do more with fewer resources. State funding for fiscal year 2015 is $37.00 per pupil but will be pro-rated to stay within the appropriations. The fiscal year 2015 pro-rated factor is 0.7664615540 and the fiscal year 2016 pro-rated factor is 0.7417859685.

Each year, school districts need additional services. Therefore, the ESC is constantly collecting data, monitoring program activity, and stepping forward to provide new services while still maintaining a financially solvent operation. The Virtual Learning Academy has added a new dimension for generating revenues, not only throughout the state of Ohio, but also throughout all fifty states and twenty-three countries overseas. In addition, the health benefits program continues to grow. The program currently insures over 16,300 employees and has contracts with two hundred sixty-one entities in sixty-eight counties across the State.

ESC systems of internal control and procedures are reviewed throughout the year to insure a cost efficient operation.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Don Donahue, Treasurer, Jefferson County ESC, 2023 Sunset Boulevard, Steubenville, Ohio 43952.

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	$ 2,362,030
Cash with fiscal agent	1,303,542
Receivables:	
Intergovernmental	27,142
Prepayments	59,607
Materials and supplies inventory	771
Capital assets:	
Nondepreciable capital assets	29,642
Depreciable capital assets, net	166,188
Capital assets, net	195,830
Total assets	3,948,922
Deferred outflows of resources:	
Pension - STRS	276,021
Pension - SERS	175,365
Total deferred outflows of resources	451,386
Liabilities:	
Accounts payable	23,904
Accrued wages and benefits payable	205,317
Intergovernmental payable	8,451
Pension and postemployment benefits	37,964
Unearned revenue	250
Claims payable	83,606
Long-term liabilities:	
Due within one year	116,127
Due in more than one year:	
Net pension liability (See Note 11)	5,456,494
Other amounts due in more than one year	122,517
Total liabilities	6,054,630
Deferred inflows of resources:	
Pension - STRS	734,286
Pension - SERS	241,419
Total deferred inflows of resources	975,705
Net position:	
Net investment in capital assets	182,086
Restricted for:	
State funded programs	1,915
Other purposes	5,135
Unrestricted (deficit)	(2,819,163)
Total net position (deficit)	$ (2,630,027)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	$ 145,582	$ 79,672	$ 42,329	$ (23,581)
Special	734,966	530,602	8,142	(196,222)
Other	8,400	6,853	105	(1,442)
Support services:				
Pupil	1,003,774	827,891	12,704	(163,179)
Instructional staff	1,653,163	1,375,944	56,844	(220,375)
Board of education	15,990	13,045	200	(2,745)
Administration	1,890,334	1,510,214	60,487	(319,633)
Fiscal	249,993	212,314	3,258	(34,421)
Operations and maintenance	37,570	30,890	474	(6,206)
Central	225	-	1,800	1,575
Operation of non-instructional services:				
Other non-instructional services	16,423	-	6,480	(9,943)
Interest and fiscal charges	505	-	-	(505)
Total governmental activities	$ 5,756,925	$ 4,587,425	$ 192,823	(976,677)
		General revenues:		
		Grants and entitlements not restricted to specific programs		340,695
		Investment earnings		16,957
		Miscellaneous		406,488
		Total general revenues		764,140
		Change in net position		(212,537)
		Net position (deficit) at beginning of year (restated)		(2,417,490)
		Net position (deficit) at end of year		$ (2,630,027)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Alternative Schools	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash				
and cash equivalents	$ 2,354,834	$ -	$ 7,196	$ 2,362,030
Receivables:				
Interfund loans	42,742	-	-	42,742
Intergovernmental	-	27,142	-	27,142
Prepayments	59,607	-	-	59,607
Materials and supplies inventory	771	-	-	771
Total assets	2,457,954	27,142	7,196	2,492,292
Liabilities:				
Accounts payable	$ 23,904	$ -	$ -	$ 23,904
Accrued wages and benefits payable	200,991	4,200	126	205,317
Intergovernmental payable	8,143	186	122	8,451
Pension and postemployment benefits	37,358	588	18	37,964
Interfund loans payable	-	27,142	15,600	42,742
Unearned revenue	250	-	-	250
Total liabilities	270,646	32,116	15,866	318,628
Fund balances:				
Nonspendable:				
Materials and supplies inventory	771	-	-	771
Prepaids	59,607	-	-	59,607
Restricted:				
Special education	-	-	5,135	5,135
Other purposes	-	-	1,915	1,915
Assigned:				
Student and staff support	23,623	-	-	23,623
Subsequent year's appropriations	435,835	-	-	435,835
Other purposes	293	-	-	293
Unassigned (deficit)	1,667,179	(4,974)	(15,720)	1,646,485
Total fund balances (deficit)	2,187,308	(4,974)	(8,670)	2,173,664
Total liabilities, deferred inflows and fund balances	$ 2,457,954	$ 27,142	$ 7,196	$ 2,492,292

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

Total governmental fund balances		$ 2,173,664
Amounts reported for governmental activities on the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		195,830
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		1,219,936
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in governmental funds.		
Deferred outflows of resources - pension	451,386	
Deferred inflows of resources - pension	(975,705)	
Net pension liability	(5,456,494)	
Total		(5,980,813)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligations	(13,744)	
Compensated absences	(224,900)	
Total		(238,644)
Net position of governmental activities		$ (2,630,027)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General	Alternative Schools	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Services provided to other entities	$ 3,099,629	$ -	$ -	$ 3,099,629
Tuition	1,487,797	-	-	1,487,797
Earnings on investments	3,553	-	-	3,553
Contributions and donations	6,250	-	-	6,250
Other local revenues	400,238	-	-	400,238
Intergovernmental - intermediate	70,393	-	-	70,393
Intergovernmental - state	340,695	54,149	8,280	403,124
Intergovernmental - federal	-	-	60,000	60,000
Total revenues	5,408,555	54,149	68,280	5,530,984
Expenditures:				
Current:				
Instruction:				
Regular	97,658	42,186	-	139,844
Special	650,388	-	-	650,388
Other	8,400	-	-	8,400
Support services:				
Pupil	1,014,791	-	-	1,014,791
Instructional staff	1,657,673	-	45,058	1,702,731
Board of education	15,990	-	-	15,990
Administration	1,848,453	13,386	30,606	1,892,445
Fiscal	260,245	-	-	260,245
Operations and maintenance	37,864	-	-	37,864
Central	-	-	219	219
Operation of non-instructional services:				
Other services of non-instructional	22,288	-	1,011	23,299
Capital outlay	15,939	-	-	15,939
Debt service:				
Principal retirement	2,546	-	-	2,546
Interest and fiscal charges	505	-	-	505
Total expenditures	5,632,740	55,572	76,894	5,765,206
Excess of expenditures over revenues	(224,185)	(1,423)	(8,614)	(234,222)
Other financing sources:				
Capital lease transaction	15,939	-	-	15,939
Total other financing sources	15,939	-	-	15,939
Net change in fund balances	(208,246)	(1,423)	(8,614)	(218,283)
Fund balances (deficit) at beginning of year.	2,395,554	(3,551)	(56)	2,391,947
Fund balances (deficit) at end of year	$ 2,187,308	$ (4,974)	$ (8,670)	$ 2,173,664

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON 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, 2015

Net change in fund balances - total governmental funds		$ (218,283)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	$ 15,939	
Current year depreciation	(32,951)	
Total		(17,012)
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		2,546
Issuance capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		(15,939)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		400,515
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(240,763)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		11,575
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(135,176)
Change in net position of governmental activities		$ (212,537)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	$ 1,303,542
Total assets	1,303,542
Liabilities:	
Claims payable	83,606
Total liabilities	83,606
Net position:	
Unrestricted	1,219,936
Total net position	$ 1,219,936

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	$ 786,595
Total operating revenues	786,595
Operating expenses:	
Claims	935,175
Total operating expenses.	935,175
Operating income (loss)	(148,580)
Nonoperating revenues:	
Interest revenue	13,404
Total nonoperating revenues.	13,404
Change in net position	(135,176)
Net position at beginning of year.	1,355,112
Net position at end of year	$ 1,219,936

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services.	$ 786,595
Cash payments for claims	(916,154)
Net cash (used in) operating activities	(129,559)
Cash flows from investing activities:	
Interest received	13,404
Net cash provided by investing activities	13,404
Net (decrease) in cash and cash equivalents	(116,155)
Cash and cash equivalents at beginning of year . . .	1,419,697
Cash and cash equivalents at end of year	$ 1,303,542
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating income (loss)	$ (148,580)
Changes in assets and liabilities:	
Increase in claims payable	19,021
Net cash (used in) operating activities.	$ (129,559)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private Purpose Trust	
	Scholarship	**Agency**
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	$ 12,567	$ 4,295
Cash and investments in segregated accounts	-	120,235,619
Receivables:		
Accounts	-	3,008
Accrued interest	6	559,133
Total assets	12,573	$ 120,802,055
Liabilities:		
Intergovernmental payable	-	$ 120,802,055
Total liabilities	-	$ 120,802,055
Net position:		
Held in trust for scholarships	12,573	
Total net position	$ 12,573	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Private Purpose Trust
	Scholarship
Additions:	
Interest.	$ 1
Total additions.	1
Change in net position	1
Net position at beginning of year.	12,572
Net position at end of year	$ 12,573

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ESC

The Jefferson County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Governing Board (five members). The following services are provided to the local school districts and city school districts under contract in Jefferson and Harrison counties:

Vocational Educational Services
General Instructional Services
Speech, Hearing and Language Services
Special Projects Coordination
Talented and Gifted Program
Special Educational Services
Psychological Services
Administrative Services
Developmental Handicapped and Disability Classroom Supervision

Average daily membership as of June 30, 2015 was 10,245. The Governing Board employed 28 certified employees and 38 non-certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

<u>Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)</u>
The OME-RESA is a not-for-profit computer service organization whose primary function is to provide information technology services to its member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

The OME-RESA is one of twenty-three regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

The OME-RESA is owned and operated by forty-five member school districts in eleven different Ohio counties. The member school districts are comprised of public school districts and educational service centers. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors which is selected by the member school districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

The OME-RESA is located at 2230 Sunset Blvd., Steubenville, Ohio 43952. The ESC acts in the capacity of fiscal agent for OME-RESA.

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

PUBLIC ENTITY RISK POOLS

Jefferson Health Plan (the "Health Plan")
The ESC participates in the Health Plan, a claims servicing self-insurance pool organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative program to administer medical, prescription, vision and dental benefits for employees of the participating entities and their eligible dependents. The Health Plan contracts with third-party administrators to process and pay health, dental and vision claims incurred by its members.

The Health Plan also purchases stop loss coverage for claims in excess of a set amount for individual claims and in the pool's aggregate.

Each member of the Health Plan is obligated to pay a fee based on an estimate of the member's share of the Health Plan costs for the fiscal year. Included in this estimate are claims by eligible employees which are payable by each member, the member's share of the medical, prescription, vision and dental insurance premiums, and their proportionate share of the administrative costs of the Health Plan. The actual balance of each member's account is determined on a monthly basis. Each member is required to meet or exceed the claims that have been incurred but not reported (IBNR) and to maintain adequate reserves or current funding to meet or exceed their claims fluctuation reserve requirements. If a member is in a deficit position, the participating member has two fiscal years to make up a negative reserve amount or an insufficient IBNR and three fiscal years to make up insufficient claims fluctuation reserves.

Members may withdraw from the Health Plan with as much notice as is possible for the termination, allowing the Health Plan time to determine any withdrawal balance owed to or by the departing employer. Any outstanding reserve balances are held by the Health Plan for a maximum period of six months to satisfy the payment of claims incurred before termination. The terminating member has the option to pay all of the claims incurred prior to the termination for membership so that any reserves could be released sooner. Employers found to be in a deficit position wishing to leave the Health Plan will be required to repay the deficit in full within ninety days of the effective withdraw date. Additionally, such terminating member will be required to pay any claims incurred prior to termination notification.

During fiscal year 2015, the ESC was fiscal agent for the Health Plan (See Note 4.B.).

Workers' Compensation Group Rating Program
The ESC participates in the Ohio Association of School Business Officials (OASBO)/ CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program. Refer to Note 10.B. for further information on the GRP.

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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 are the ESC's major governmental funds:

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

Alternative Schools - The alternative schools fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth. Programs shall be focused on youth in one or more of the following categories: those who have been expelled or suspended, those who have dropped out of school or who are at risk of dropping out of school, those who are habitually truant or disruptive, or those on probation or on parole from a department of youth services' facility.

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

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the ESC's proprietary fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the ESC or to other governments, on a cost-reimbursement basis. The internal service fund of the ESC accounts for a self-insurance program which provides medical benefits to employees.

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's trust fund is a private-purpose trust which accounts for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for the Jefferson Health Plan and OME-RESA.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the ESC and for each function or program of the ESC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the ESC. 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 ESC.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the fund are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the ESC finances and meets the cash flow needs of its proprietary activities.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the ESC's internal service fund is charges for services. Operating expenses for internal service funds include the claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the ESC 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 ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the ESC that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the ESC that is applicable to a future reporting period.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

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.

E. Budgets

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

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

F. Cash and Investments

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

During fiscal year 2015, the ESC's investments were limited to non-negotiable certificates of deposits. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board investment earnings are assigned to the general fund, the Self-Insurance internal service fund, (which is maintained by a fiscal agent in an interest bearing account separate from the ESC's internal investment pool) and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2015 amounted to $3,553, which includes $5 assigned from other ESC funds.

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

An analysis of the ESC's investment account at year end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to 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 ESC maintains a capitalization threshold of $500. The ESC 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 for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings	40 years
Furniture and equipment	5 - 30 years
Vehicles	10 years

H. Interfund Balances

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

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

I. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2015, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

K. Inventory

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

Inventory consists of expendable supplies held for consumption.

L. Fund Balance

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

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

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Governing Board (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the ESC 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 ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

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

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

On the fund financial statements, reported prepayments are equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of the net current position.

O. Estimates

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

P. Operating Revenues and Expenses

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

Q. 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 basic financial statements. During fiscal year 2015, no interfund activity was recorded.

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

R. 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.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the ESC has implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*", GASB Statement No. 69 "*Government Combinations and Disposals of Government Operations*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the ESC.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the ESC's pension plan disclosures, as presented in Note 11 to the financial statements, and added required supplementary information which is presented on pages 59-65.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	$ 3,723,075
Deferred outflows - payments subsequent to measurement date	335,108
Net pension liability	(6,475,673)
Restated net position at July 1, 2014	$ (2,417,490)

Other than employer contributions subsequent to the measurement date, the ESC made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2015 included the following individual fund deficits:

Major fund	Deficit
Alternative schools	$ 4,974
Nonmajor funds	
Race to the top	15,720

The general fund is liable for the deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

6. The State Treasurer's investment pool (State Treasury Asset Reserve of Ohio);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash With Fiscal Agent

The ESC is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2015, was $1,303,542.

B. Cash and Investments in Segregated Accounts

The ESC is fiscal agent for the Jefferson Health Plan and OME-RESA (See Note 2.A.). At June 30, 2015, $120,235,619 was held in agency funds on behalf of the Health Plan and OME-RESA. The deposits and investments of the Health Plan and OME-RESA are held separate from the ESC internal cash management pool. The data regarding insurance and collateralization of the Health Plan and OME-RESA deposits and investments can be obtained from the respective entity's separate financial statements for the fiscal year ended June 30, 2015.

C. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all ESC deposits was $2,378,892. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, $908,187 of the ESC's bank balance of $2,424,671 was exposed to custodial risk as discussed below, while $1,516,484 was covered by the FDIC.

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

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

Cash and investments per note	
Carrying amount of deposits	$ 2,378,892
Cash with fiscal agent	1,303,542
Cash and investments in segregated accounts	120,235,619
Total	$ 123,918,053

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Cash and investments per statement of net position	
Governmental activities	$ 3,665,572
Private-purpose trust funds	12,567
Agency funds	120,239,914
Total	$ 123,918,053

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2015 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

Receivable fund	Payable funds	Amount
General	Alternative schools	$ 27,142
General	Nonmajor governmental	15,600
Total		$ 42,742

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund loan receivables/payables are short-term interfund loans, and are expected to be repaid in the subsequent fiscal year. The primary purpose of these interfund loans is to cover costs where revenues were not received by June 30. The interfund loans will be repaid once the anticipated revenues are received. Interfund loan receivables/payables between governmental funds are eliminated and are not reported on the government-wide statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2015 consisted of intergovernmental (billings to school districts for user charged services, tuition and accrued interest). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Intergovernmental	$ 27,142

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance 06/30/14	Additions	Deductions	Balance 06/30/15
Govermental activities:				
Capital assets, not being depreciated:				
Land	$ 29,642	$ -	$ -	$ 29,642
Total capital assets, not being depreciated	29,642	-	-	29,642
Capital assets, being depreciated:				
Buildings	156,032	-	-	156,032
Furniture and equipment	416,379	15,939	-	432,318
Vehicles	7,172	-	-	7,172
Total capital assets, being depreciated	579,583	15,939	-	595,522
Less: accumulated depreciation:				
Buildings	(47,627)	(3,901)	-	(51,528)
Furniture and equipment	(341,584)	(29,050)	-	(370,634)
Vehicles	(7,172)	-	-	(7,172)
Total accumulated depreciation	(396,383)	(32,951)	-	(429,334)
Governmental activities capital assets, net	$ 212,842	$ (17,012)	$ -	$ 195,830

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 345
Special	3,474
Support services:	
Pupil	820
Instructional staff	364
Administration	27,147
Operations and maintenance	795
Central	6
Total depreciation expense	$ 32,951

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current and prior fiscal year, the ESC entered into a capitalized lease with Dollar Leasing Corporation for copier equipment. These lease agreements meet the criteria of a capital lease as defined by generally accepted accounting principles which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of $34,059. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2015 was $19,714, leaving a current book value of $14,345. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments in the 2015 fiscal year totaled $2,546 and $505, respectively, paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2015:

Fiscal Year Ending June 30,	Amount
2016	$ 3,597
2017	3,596
2018	3,596
2019	3,596
2020	899
Total minimum lease payments	15,284
Less: Amount representing interest	(1,540)
Total	$ 13,744

NOTE 9 - LONG-TERM OBLIGATIONS

Long-term liabilities at June 30, 2014 have been restated to include the net pension liability (See Note 3.A. for detail). During the fiscal year 2015, the following activity occurred in governmental activities long-term obligations:

	Restated Balance 06/30/14	Additions	Reductions	Balance 06/30/15	Amounts Due in One Year
Capital lease obligations	$ 351	$ 15,939	$ (2,546)	$ 13,744	$ 2,977
Compensated absences	236,475	148,874	(160,449)	224,900	113,150
Net pension liability	6,475,673	-	(1,019,179)	5,456,494	-
Total	$ 6,712,499	$ 164,813	$ (1,182,174)	$ 5,695,138	$ 116,127

Compensated absences will be paid from the fund from which the employees' salaries are paid, which consist of the general fund.

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

See Note 11 for detail on the net pension liability.

Capital lease obligations will be paid from the general fund. See Note 8 for detail.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The ESC has a comprehensive property and casualty policy through Schools of Ohio Risk Sharing Authority. There is no deductible on any occurrences except $50,000 on Earth Movement and Floods. All Board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are $2,000,000 per occurrence and $4,000,000 per aggregate. The treasurer is covered under a surety bond in the amount of $250,000.

Settled claims have not exceeded this commercial coverage in the past three years. There has been no significant reduction in coverage from fiscal year 2014.

B. Group Workers' Compensation Rating Plan

For fiscal year 2015, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Group Life, Medical, Dental and Vision Insurance

Medical/surgical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. The ESC is a member of a claims servicing pool, consisting of school districts and other entities throughout the state, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the ESC's behalf. The plan is administered through the Jefferson Health Plan and provides stop loss protection of claims over $500,000 per individual per year. The claims liability of $83,606 as reported in the internal service fund at June 30, 2015, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

NOTE 10 - RISK MANAGEMENT - (Continued)

Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2015	$ 64,585	$ 935,175	$ (916,154)	$ 83,606
2014	82,134	600,342	(617,891)	64,585

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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 *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –ESC non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was $162,705 for fiscal year 2015. Of this amount, $7,926 is reported as pension and postemployment obligation payable.

Plan Description - State Teachers Retirement System (STRS)

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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, 2015, plan members were required to contribute 12 percent of their annual covered salary. The ESC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The ESC’s contractually required contribution to STRS was $237,810 for fiscal year 2015. Of this amount, $18,861 is reported as pension and postemployment obligation payable.

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate share of the net pension liability	$ 1,487,462	$ 3,969,032	$ 5,456,494
Proportion of the net pension liability	0.02939100%	0.01631771%	
Pension expense	$ 86,802	$ 153,961	$ 240,763

At June 30, 2015, the ESC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 12,660	$ 38,211	$ 50,871
ESC contributions subsequent to the measurement date	162,705	237,810	400,515
Total deferred outflows of resources	$ 175,365	$ 276,021	$ 451,386
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	$ 241,419	$ 734,286	$ 975,705
Total deferred inflows of resources	$ 241,419	$ 734,286	$ 975,705

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

$400,515 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2016	$ (57,190)	$ (174,019)	$ (231,209)
2017	(57,190)	(174,019)	(231,209)
2018	(57,190)	(174,019)	(231,209)
2019	(57,189)	(174,018)	(231,207)
Total	$ (228,759)	$ (696,075)	$ (924,834)

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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

Discount Rate

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

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	$ 2,122,166	$ 1,487,462	$ 953,621

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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, 2014, 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:

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the ESC's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the ESC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	$ 5,682,102	$ 3,969,032	$ 2,520,351

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was $20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the ESC's surcharge obligation was $11,176.

The ESC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $17,780, $9,795, and $27,644, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were $0, $16,058, and $20,924 respectively. The full amount has been contributed for fiscal years 2014 and 2013.

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the ESC.

B. Litigation

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

NOTE 14 - STATE FUNDING

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

Part (B) of the budget is funded in the following way: $6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school ESCs to which the ESC provides services from payments made under the State's foundation program. Simultaneously, $37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. This amount is pro-rated to stay within the appropriation in each fiscal year. The fiscal year 2015 pro-rated factor is 0.7664615540 and the fiscal year 2016 pro-rated factor will be 0.7417859685.

NOTE 15 - COMMITMENTS

The ESC utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the ESC's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General fund	$ 23,623
Nonmajor governmental	5
Total	$ 23,628

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues:				
From local sources:				
Services provided to other entities	$ 4,052,647	$ 3,112,528	$ 3,112,528	$ -
Tuition	-	1,487,798	1,487,798	-
Earnings on investments	2,500	4,013	4,013	-
Contributions and donations	-	6,250	6,250	-
Other local revenues	15,000	400,268	400,268	-
Intergovernmental - intermediate	75,000	70,393	70,393	-
Intergovernmental - state	735,000	340,695	340,695	-
Total revenues	4,880,147	5,421,945	5,421,945	-
Expenditures:				
Current:				
Instruction:				
Regular	48,368	99,218	99,218	-
Special	697,111	661,762	661,762	-
Other	7,200	8,400	8,400	-
Support services:				
Pupil	1,047,589	989,508	989,508	-
Instructional staff	1,689,289	1,692,157	1,692,157	-
Board of education	17,653	16,203	16,203	-
Administration	1,067,729	1,872,704	1,872,704	-
Fiscal	253,726	254,002	254,002	-
Operations and maintenance	20,847	26,902	26,902	-
Total expenditures	4,849,512	5,620,856	5,620,856	-
Excess (deficiency) of revenues over (under) expenditures	30,635	(198,911)	(198,911)	-
Other financing sources (uses):				
Refund of prior year's expenditures	-	35,073	35,073	-
Refund of prior year's receipts	-	(6,177)	(6,177)	-
Advances in	-	449,921	449,921	-
Advances (out)	-	(516,652)	(516,652)	-
Total other financing sources (uses)	-	(37,835)	(37,835)	-
Net change in fund balance	30,635	(236,746)	(236,746)	-
Fund balance at beginning of year	2,547,882	2,547,882	2,547,882	-
Prior year encumbrances appropriated	19,782	19,782	19,782	-
Fund balance at end of year	$ 2,598,299	$ 2,330,918	$ 2,330,918	$ -

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALTERNATIVE SCHOOLS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
From local sources:				
Intergovernmental - state	$ 55,000	$ 34,000	$ 34,000	$ -
Total revenue	55,000	34,000	34,000	-
Expenditures:				
Current:				
Instruction:				
Regular	53,940	40,767	40,767	-
Support Services:				-
Administration	20,000	13,382	13,382	-
Total expenditures	73,940	54,149	54,149	-
Excess of revenues over (under) expenditures	(18,940)	(20,149)	(20,149)	-
Other financing (uses):				
Advances in	-	27,142	27,142	-
Advances (out)	-	(6,993)	(6,993)	-
Total other financing (uses)	-	20,149	20,149	-
Net change in fund balance	(18,940)	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	$ (18,940)	$ -	$ -	$ -

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC Governing Board does follow the budgetary process for control purposes.

The ESC Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. Although the legal level of budgetary control was established at the fund level of expenditures, the ESC has elected to present the general fund budgetary statement comparison schedule at the fund and function level. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedule reflects the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amount reported as the final budgeted amounts on the budgetary schedule represents the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

1. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

2. Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

3. To reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

4. Advances-in and advances-out are operating transactions (budget-basis) as opposed to balance sheet transactions (GAAP basis); and

5. Some funds are included in the general fund (GAAP basis), but have separate budgets (budget-basis).

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and alternative schools fund are as follows:

Net Change in Fund Balance

	General fund	Alternative Schools
Budget basis	$ (236,746)	$ -
Net adjustment for revenue accruals	(13,390)	20,149
Net adjustment for expenditure accruals	(35,507)	(1,423)
Net adjustment for other sources/uses	53,774	(20,149)
Adjustment for encumbrances	23,623	-
GAAP basis	$ (208,246)	$ (1,423)

The internal service rotary fund that is budgeted in a separate special revenue fund is considered part of the general fund on a GAAP basis.

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REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ESC'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2015	**2014**
ESC's proportion of the net pension liability	0.02939100%	0.02939100%
ESC's proportionate share of the net pension liability	$ 1,487,462	$ 1,747,788
ESC's covered-employee payroll	$ 854,033	$ 788,158
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	221.76%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented as of the ESC's measurment date which is the prior fiscal year end.

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ESC'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2015	2014
ESC's proportion of the net pension liability	0.01631771%	0.01631771%
ESC's proportionate share of the net pension liability	$ 3,969,032	$ 4,727,885
ESC's covered-employee payroll	$ 1,667,223	$ 2,092,431
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	225.95%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2014 was unavailable.

Amounts presented as of the ESC's measurment date which is the prior fiscal year end.

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ESC CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2015	2014	2013	2012	2011
Contractually required contribution	$ 162,705	$ 118,369	$ 109,081	$ 231,302	$ 204,068
Contributions in relation to the contractually required contribution	(162,705)	(118,369)	(109,081)	(231,302)	(204,068)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 1,234,484	$ 854,033	$ 788,158	$ 1,719,717	$ 1,623,453
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%

2010		2009		2008		2007		2006	
$	217,378	$	152,467	$	151,323	$	160,986	$	174,790
	(217,378)		(152,467)		(151,323)		(160,986)		(174,790)
$	-	$	-	$	-	$	-	$	-
$	1,605,451	$	1,549,461	$	1,540,967	$	1,507,360	$	1,652,079
	13.54%		9.84%		9.82%		10.68%		10.58%

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ESC CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2015	2014	2013	2012	2011
Contractually required contribution	$ 237,810	$ 216,739	$ 272,016	$ 331,100	$ 402,590
Contributions in relation to the contractually required contribution	(237,810)	(216,739)	(272,016)	(331,100)	(402,590)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 1,698,643	$ 1,667,223	$ 2,092,431	$ 2,546,923	$ 3,096,846
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%

2010		2009		2008		2007		2006	
$	348,177	$	365,837	$	380,529	$	338,199	$	307,039
	(348,177)		(365,837)		(380,529)		(338,199)		(307,039)
$	-	$	-	$	-	$	-	$	-
$	2,678,285	$	2,814,131	$	2,927,146	$	2,601,531	$	2,361,838
	13.00%		13.00%		13.00%		13.00%		13.00%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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

Jefferson County Educational Service Center
Jefferson County
2023 Sunset Blvd.
Steubenville, Ohio 43952

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, (the Center) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 4, 2017.

Internal Control Over Financial Reporting

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

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Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001
www.ohioauditor.gov

Compliance and Other Matters

As part of reasonably assuring whether the 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 Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

April 4, 2017

Dave Yost · Auditor of State

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 16, 2017

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