



Dave Yost • Auditor of State



**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY  
JUNE 30, 2016**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Northwest Ohio Educational Service Center  
Fulton County  
205 Nolan Parkway  
Archbold, Ohio 43502-8404

To the Board of Education:

### ***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 Northwest Ohio Educational Service Center, Fulton County, Ohio (the Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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.

### ***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 Northwest Ohio Educational Service Center, Fulton County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Supplementary Information*

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

The schedule of revenues, expenditures, and changes in fund balance – budget and actual for the General, Migrant and OMEC, and Title VI-B funds present additional analysis and are not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 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.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 23, 2017

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Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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

**Highlights**

Highlights for fiscal year 2016 are as follows:

There was an increase in net position for fiscal year 2016 of \$504,202, or approximately 2 percent.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Northwest Ohio Educational Service Center as a financial whole, or as an entire operating entity.

The statement of net position and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Northwest Ohio Educational Service Center, the General Fund and the Migrant and OMEC and Title IV-B (Individual Disabilities Education Act Grant (IDEA-B)) special revenue funds are the most significant funds.

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

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2016. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Educational Service Center's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include facility conditions, required educational programs, and other factors.

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
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In the statement of net position and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities, including instruction, support services, non-instructional services, and intergovernmental activities.

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

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Migrant and OMEC and Title VI-B (Individual Disabilities Education Act Grant (IDEA-B)) special revenue funds.

Governmental Funds - All of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2016 and fiscal year 2015.

Table 1  
Net Position

	Governmental Activities		
	2016	2015	Change
<u>Assets</u>			
Current and Other Assets	\$3,595,565	\$4,086,803	(\$491,238)
Capital Assets, Net	5,956,510	6,081,277	(124,767)
Total Assets	9,552,075	10,168,080	(616,005)
 <u>Deferred Outflows of Resources</u>			
Pension	2,616,005	1,852,290	763,715
			(continued)

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Table 1  
Net Position  
(continued)

	Governmental Activities		Change
	2016	2015	
<u>Liabilities</u>			
Current and Other Liabilities	\$2,014,809	\$2,074,387	\$59,578
Long-Term Liabilities			
Pension	27,966,120	26,200,158	(1,765,962)
Other Amounts	884,252	1,413,631	529,379
Total Liabilities	<u>30,865,181</u>	<u>29,688,176</u>	<u>(1,177,005)</u>
<u>Deferred Inflows of Resources</u>			
Pension	<u>3,154,952</u>	<u>4,688,449</u>	<u>1,533,497</u>
<u>Net Position</u>			
Net Investment in Capital Assets	5,956,510	5,570,215	386,295
Restricted	449,545	342,298	107,247
Unrestricted (Deficit)	<u>(28,258,108)</u>	<u>(28,268,768)</u>	<u>10,660</u>
Total Net Position (Deficit)	<u>(21,852,053)</u>	<u>(\$22,356,255)</u>	<u>\$504,202</u>

The net pension liability is the largest liability reported by the Educational Service Center at June 30, 2016, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 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 Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal the Educational Service Center's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer as 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. vacation and sick 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 Educational Service Center. 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 Statement No. 68, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

Total net position increased 2 percent, which was not a significant change overall; however, there were a couple changes of note. Aside from the changes related to pension, there was also a sizable decrease in current and other assets (cash and cash equivalents) and other long-term liabilities due to the retirement of the building acquisition loan. The increase in the net investment in capital assets also reflects the retirement of the building acquisition loan (offset by annual depreciation).

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Management's Discussion and Analysis  
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Table 2 reflects the change in net position for fiscal year 2016 and fiscal year 2015.

Table 2  
Change in Net Position

	Governmental Activities		Change
	2016	2015	
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$12,417,043	\$13,122,591	(\$705,548)
Operating Grants and Contributions	5,656,185	5,645,128	11,057
Total Program Revenues	<u>18,073,228</u>	<u>18,767,719</u>	<u>(694,491)</u>
General Revenues			
Grants and Entitlements	634,125	661,358	(27,233)
Interest	24,824	9,717	15,107
Rent	200,962	200,963	(1)
Miscellaneous	47,130	152,581	(105,451)
Total General Revenues	<u>907,041</u>	<u>1,024,619</u>	<u>(117,578)</u>
Total Revenues	<u>18,980,269</u>	<u>19,792,338</u>	<u>(812,069)</u>
<u>Expenses:</u>			
Instruction:			
Regular	1,213,408	1,638,521	425,113
Special	5,296,469	5,773,053	476,584
Support Services:			
Pupils	4,359,904	4,311,626	(48,278)
Instructional Staff	2,473,975	2,340,748	(133,227)
Board of Education	100,239	106,188	5,949
Administration	549,405	536,712	(12,693)
Fiscal	574,841	586,086	11,245
Business	14,100	13,796	(304)
Operation and Maintenance of Plant	507,939	508,637	698
Pupil Transportation	169,708	185,861	16,153
Central	222,516	219,506	(3,010)
Non-Instructional Services	90,343	63,726	(26,617)
Intergovernmental	2,900,382	2,963,830	63,448
Interest and Fiscal Charges	2,838	20,382	17,544
Total Expenses	<u>18,476,067</u>	<u>19,268,672</u>	<u>792,605</u>
Increase in Net Position	504,202	523,666	(19,464)
Net Position (Deficit) at Beginning of Year	<u>(22,356,255)</u>	<u>(22,879,921)</u>	<u>523,666</u>
Net Position (Deficit) at End of Year	<u>(\$21,852,053)</u>	<u>(\$22,356,255)</u>	<u>\$504,202</u>

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Management's Discussion and Analysis  
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Program revenues were 95 percent of total revenues for fiscal year 2016 (same for fiscal year 2015) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 65 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center provides services to seventeen local, three exempted village, and three city school districts in Northwest Ohio, as well as some services to various other area school districts. Total revenues decreased 4 percent primarily due to a decrease in charges for services revenue which fluctuates annually on the needs of the school districts the Educational Service Center serves.

Overall, program expenses decreased 4 percent, which mirrors the decrease in total revenues (based on service requests of the school districts served by the Educational Service Center).

Regular instruction costs (7 percent of total expenses) include opportunity programs and suspension programs.

Special instruction activities include activities such as instruction of gifted, multiple disabled, hearing impaired, visual impaired, orthopedic impaired, emotional disturbed, cognitive and specific learning disabled, English as a second language, preschool disabled children, and paraprofessionals (teacher aides).

Expenses for the services of nurses, school psychologists, speech therapists, attendance officer, adapted physical education instructors, occupational therapists, physical therapists, work-study coordinators, and transition services are reflected as pupils support services.

Instructional staff support services include activities such as special education supervisors, general education consultants, gifted education coordinators, and child information management specialists.

Intergovernmental expenses include the Individual Disabilities Education Act Grant (IDEA-B), Early Childhood Special Education Grant (ECSE), and the Limited English Proficiency Grant (LEP). These are flow-through grant resources received and spent by the Educational Service Center on behalf of the school districts.

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Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the costs of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted State entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction:				
Regular	\$1,213,408	\$1,638,521	(\$2,147,954)	(\$1,579,902)
Special	5,296,469	5,773,053	(1,934,950)	(2,045,215)
Support Services:				
Pupils	4,359,904	4,311,626	373,279	76,532
Instructional Staff	2,473,975	2,340,748	2,298,158	2,179,902
Board of Education	100,239	106,188	100,239	106,188
Administration	549,405	536,712	549,405	536,712
Fiscal	574,841	586,086	359,968	401,145
Business	14,100	13,796	14,100	13,796
Operation and Maintenance of Plant	507,939	508,637	507,939	508,637
Pupil Transportation	169,708	185,861	169,708	185,861
Central	222,516	219,506	28,059	53,959
Non-Instructional Services	90,343	63,726	82,843	43,226
Intergovernmental	2,900,382	2,963,830	(793)	(270)
Interest and Fiscal Charges	2,838	20,382	2,838	20,382
Total Expenses	<u>18,476,067</u>	<u>\$19,268,672</u>	<u>402,839</u>	<u>\$500,953</u>

For fiscal year 2016, program revenues provided for 98 percent of the costs of providing services. Funding for gifted and preschool units are provided by the State based on the training and experience of the staff employed in those positions. These units have been and continue to be funded below actual costs. The remaining costs are covered by general revenues.

Expenses for certain staff such as special education supervisors, general education consultants, and gifted education coordinators, and others are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be under funded. Some expenses within the pupils support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

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Management's Discussion and Analysis  
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**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance decreased \$516,733 (32 percent) in the General Fund. The change was mostly due to expending over \$405,000 to pay off the building acquisition loan.

Fund balance decreased 37 percent in the Migrant and OMEC Fund as current year grant resources were not adequate to cover current year program needs.

The Title VI-B (Individual Disabilities Education Act Grant (IDEA-B)) Fund had a minimal fund balance as of fiscal year end as resources received were spent.

**Capital Assets and Debt Administration**

Capital Assets - At June 30, 2015, the Educational Service Center had \$5,956,510 invested in capital assets (net of accumulated depreciation). Additions consisted of technology and security equipment, as well as a handicap-accessible van and a car. Disposals included a building and obsolete equipment. For further information regarding the Educational Service Center's capital assets, refer to Note 8 to the basic financial statements.

The Educational Service Center's long-term obligations consist of the net pension liability and compensated absences. For further information regarding the Educational Service Center's long-term obligations, refer to Note 15 to the basic financial statements.

**Current Issues**

With the slow recovery of the economy and the second half of the State bi-annual budget, funding cuts continue for the Educational Service Center. Reductions in educational service center per pupil funding have been enacted in the past, beginning in fiscal year 2008, changing to a flat reduction of fiscal year 2012 funding in fiscal year 2013. While funding in fiscal year 2014 returned to a per pupil calculation, the State appropriation was not sufficient to fully fund the total amount state-wide. The State appropriation for fiscal year 2015 was less than fiscal year 2014. Additionally, two large school districts aligned to an educational service center in fiscal year 2015. One large school district has not aligned to an educational service center, so the potential to dilute the State per pupil funding continues. Fiscal year 2016 funding was reduced from \$35 to \$33 per student with the State appropriation still insufficient to fund all ADM aligned to educational service centers which resulted in less per pupil state funding in fiscal year 2016 than in 2015. For fiscal year 2017, State funding was established at \$25 per student which was under the State appropriation. Furthermore, all educational service centers were given the opportunity to apply for high performing designation which would result in an additional \$2 per student in funding. Again, this funding was subject to the total State appropriation which may not fund the high performing addition in full.



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Costs for services will increase with staff moving up the salary schedules but be mitigated somewhat where staff are frozen at their current rates on the new schedules. Increased insurance premiums will also cause costs to rise as the Educational Service Center tries to maintain quality services with quality personnel. Retirements of veteran staff will mitigate some of those increases as less experienced staff are hired as replacements. Following multiple years of no salary schedule increases and a step freeze in fiscal year 2014, the Educational Service Center had a modest increase to salary schedules of 1 percent in fiscal year 2015. Going into fiscal year 2016, a consultant was hired to study and propose a revision to the pay schedules which was adopted in the spring of 2015. Employees were assigned to the step on the appropriate new schedule that was no less than each employee's rate of pay in fiscal year 2015. Some rates were less than the initial step on the new schedules resulting in some employee raises being greater than the 2 percent that each step represents. For 2016, a base increase of 2 percent was made to all salary schedules in addition to those staff members who moved up in steps. Some staff members are paid above the top stop of the schedules and continue to have their current rate of pay frozen until the schedule catches up with their rate. Additionally, educational programming expenses associated with services to this student population continue to increase. Extended service days and hours per day for staff have been reduced where possible to help mitigate increases. Some positions are not being filled as vacancies occur.

Since the Educational Service Center charges school districts for services based on costs, charges for services will modestly increase in fiscal year 2017. School districts continue to look for ways to cut expenses including services they receive from the Educational Service Center as their operational costs increase. Since the majority of services provided are mandated, school districts can look at providing the services themselves if they believe they have the capacity to provide the services themselves at a lower cost or with staff that would otherwise have been cut at their school districts to reduce overall costs.

Erate funding changes will also be a factor in lower revenues as the program focus changes to internet connectivity, away from phone and wireless services which have been funded to a level of 90 percent of eligible costs of these services. These changes began in fiscal year 2015.

In the fall of 2015, the Educational Service Center paid down the remaining debt on the office building in Archbold. The original amount was amortized over approximately eight years. The lease payments from the Northern Buckeye Education Council will fund maintenance and improvement projects expected as the building ages with amounts beyond those needs potentially used to lower costs to school districts or increase services provided. In the fall of 2016, the Educational Service Center and Northern Buckeye Educational Council approved a revised lease agreement which included changes to how maintenance and improvement projects will be funded going forward. Northern Buckeye Education Council also paid its prior lease obligation in full as part of the agreement. These funds will be split between creating a reserve fund for maintenance and upkeep of the building along with a disbursement to member school districts per a Board adopted operating balance policy.

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Homer B. Hendricks, Chief Financial Officer, Northwest Ohio Educational Service Center, 205 Nolan Parkway, Archbold, OH 43502-0250.

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Northwest Ohio Educational Service Center  
Statement of Net Position  
June 30, 2016

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,013,883
Accounts Receivable	17,857
Accrued Interest Receivable	3,749
Intergovernmental Receivable	537,456
Prepaid Items	12,452
Materials and Supplies Inventory	10,168
Nondepreciable Capital Assets	215,200
Depreciable Capital Assets, Net	<u>5,741,310</u>
Total Assets	<u>9,552,075</u>
 <u>Deferred Outflows of Resources:</u>	
Pension	<u>2,616,005</u>
 <u>Liabilities:</u>	
Accounts Payable	102,714
Accrued Wages and Benefits Payable	1,618,607
Matured Compensated Absences Payable	4,972
Intergovernmental Payable	288,516
Long-Term Liabilities:	
Due Within One Year	63,182
Due in More Than One Year	
Other Amounts Due in More Than One Year	821,070
Net Pension Liability	<u>27,966,120</u>
Total Liabilities	<u>30,865,181</u>
 <u>Deferred Inflows of Resources:</u>	
Pension	<u>3,154,952</u>
 <u>Net Position:</u>	
Net Investment in Capital Assets	5,956,510
Restricted For:	
Capital Projects	183,729
Migrant and OMEC	195,329
Other Purposes	70,487
Unrestricted (Deficit)	<u>(28,258,108)</u>
Total Net Position (Deficit)	<u><u>(\$21,852,053)</u></u>

See Accompanying Notes to Basic Financial Statements

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

	Program Revenues		Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$1,213,408	\$1,523,078	\$1,838,284	\$2,147,954
Special	5,296,469	6,372,289	859,130	1,934,950
Support Services:				
Pupils	4,359,904	3,962,819	23,806	(373,279)
Instructional Staff	2,473,975	156,257	19,560	(2,298,158)
Board of Education	100,239	0	0	(100,239)
Administration	549,405	0	0	(549,405)
Fiscal	574,841	214,873	0	(359,968)
Business	14,100	0	0	(14,100)
Operation and Maintenance of Plant	507,939	0	0	(507,939)
Pupil Transportation	169,708	0	0	(169,708)
Central	222,516	187,727	6,730	(28,059)
Non-Instructional Services	90,343	0	7,500	(82,843)
Intergovernmental	2,900,382	0	2,901,175	793
Interest and Fiscal Charges	2,838	0	0	(2,838)
Total Governmental Activities	<u>\$18,476,067</u>	<u>\$12,417,043</u>	<u>\$5,656,185</u>	<u>(402,839)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	634,125
Interest	24,824
Rent	200,962
Miscellaneous	47,130
Total General Revenues	<u>907,041</u>
Change in Net Position	504,202
Net Position (Deficit) at Beginning of Year	<u>(22,356,255)</u>
Net Position (Deficit) at End of Year	<u><u>(\$21,852,053)</u></u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
Balance Sheet  
Governmental Funds  
June 30, 2016

	General	Migrant and OMECE	Title VI-B	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,701,848	\$38,135	\$0	\$273,900	\$3,013,883
Accounts Receivable	17,857	0	0	0	17,857
Accrued Interest Receivable	3,749	0	0	0	3,749
Intergovernmental Receivable	153,252	315,665	1,054	67,485	537,456
Interfund Receivable	7,183	0	0	0	7,183
Prepaid Items	10,773	410	9	1,260	12,452
Materials and Supplies Inventory	10,168	0	0	0	10,168
Total Assets	<u>\$2,904,830</u>	<u>\$354,210</u>	<u>\$1,063</u>	<u>\$342,645</u>	<u>\$3,602,748</u>
<u>Liabilities:</u>					
Accounts Payable	\$17,503	\$78,734	\$0	\$6,477	\$102,714
Accrued Wages and Benefits Payable	1,512,668	44,962	0	60,977	1,618,607
Matured Compensated Absences Payable	4,972	0	0	0	4,972
Intergovernmental Payable	265,451	10,883	0	12,182	288,516
Interfund Payable	0	0	0	7,183	7,183
Total Liabilities	<u>1,800,594</u>	<u>134,579</u>	<u>0</u>	<u>86,819</u>	<u>2,021,992</u>
<u>Deferred Inflows of Resources:</u>					
Unavailable Revenue	9,198	97,165	0	0	106,363
<u>Fund Balances:</u>					
Nonspendable	20,941	410	9	1,260	22,620
Restricted	0	122,056	1,054	254,669	377,779
Assigned	105,119	0	0	0	105,119
Unassigned (Deficit)	968,978	0	0	(103)	968,875
Total Fund Balances	<u>1,095,038</u>	<u>122,466</u>	<u>1,063</u>	<u>255,826</u>	<u>1,474,393</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$2,904,830</u>	<u>\$354,210</u>	<u>\$1,063</u>	<u>\$342,645</u>	<u>\$3,602,748</u>

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Fund Balances	\$1,474,393
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Amounts reported for governmental activities on the statement of net position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,956,510
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Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

Accounts Receivable	233	
Accrued Interest Receivable	882	
Interfund Receivable	3,429	
Intergovernmental Receivable	101,819	106,363

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated Absences Payable	(884,252)
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The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.

Deferred Outflows - Pension	2,616,005	
Deferred Inflows - Pension	(3,154,952)	
Net Pension Liability	(27,966,120)	(28,505,067)

Net Position of Governmental Activities	(\$21,852,053)
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See Accompanying Notes to the Basic Financial Statements

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

	General	Migrant and OMECE	Title VI-B	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Intergovernmental	\$673,245	\$748,322	\$2,698,473	\$2,109,755	\$6,229,795
Interest	25,066	0	0	8	25,074
Tuition and Fees	13,757,166	0	0	0	13,757,166
Customer Services	1,327,386	0	0	0	1,327,386
Rent	0	0	0	200,962	200,962
Gifts and Donations	7,138	0	0	7,500	14,638
Miscellaneous	69,413	0	0	0	69,413
Total Revenues	<u>15,859,414</u>	<u>748,322</u>	<u>2,698,473</u>	<u>2,318,225</u>	<u>21,624,434</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	726,720	0	0	511,501	1,238,221
Special	7,576,958	176,646	0	439,575	8,193,179
Support Services:					
Pupils	3,883,368	0	0	637,932	4,521,300
Instructional Staff	1,832,446	545,607	0	150,850	2,528,903
Board of Education	100,337	0	0	0	100,337
Administration	579,966	0	0	0	579,966
Fiscal	504,571	48,177	0	27,533	580,281
Business	11,777	0	0	0	11,777
Operation and Maintenance of Plant	462,394	26,036	0	0	488,430
Pupil Transportation	92,374	7,849	0	70,984	171,207
Central	157,031	0	0	5,515	162,546
Non-Instructional Services	41,970	17,409	0	31,777	91,156
Intergovernmental	0	0	2,697,410	202,972	2,900,382
Debt Service:					
Principal Retirement	405,419	0	0	105,643	511,062
Interest and Fiscal Charges	816	0	0	3,503	4,319
Total Expenditures	<u>16,376,147</u>	<u>821,724</u>	<u>2,697,410</u>	<u>2,187,785</u>	<u>22,083,066</u>
Changes in Fund Balances	(516,733)	(73,402)	1,063	130,440	(458,632)
Fund Balances at Beginning of Year	1,611,771	195,868	0	125,386	1,933,025
Fund Balances at End of Year	<u>\$1,095,038</u>	<u>\$122,466</u>	<u>\$1,063</u>	<u>\$255,826</u>	<u>\$1,474,393</u>

See Accompanying Notes to the Basic Financial Statements

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

Changes in Fund Balances - Total Governmental Funds (\$458,632)

Amounts reported for governmental activities on the statement of activities are different because of the following:

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

Capital Outlay	80,800	
Depreciation	(187,509)	
	(106,709)	(106,709)

The book value of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (18,058)

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

Intergovernmental	45,877	
Interest	(250)	
Tuition and Fees	4,370	
Customer Services	(2,223)	
Miscellaneous	(22,283)	
	25,491	25,491

Repayment of principal is an expenditure in governmental funds but the repayment reduces long-term liabilities on the statement of net position. 511,062

Interest is reported as an expenditure when due in governmental funds but is accrued on outstanding debt on the statement of net position. 1,481

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 18,317

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (1,034,532)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows or a reduction of the liability. 1,565,782

Change in Net Position of Governmental Activities \$504,202

See Accompanying Notes to the Basic Financial Statements



Northwest Ohio Educational Service Center  
Statement of Fiduciary Assets and Liabilities  
Agency Fund  
June 30, 2016

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$37,260</u></u>
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Liabilities:

Intergovernmental Payable	<u><u>\$37,260</u></u>
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See Accompanying Notes to the Basic Financial Statements

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Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Note 1 - Reporting Entity**

Northwest Ohio Educational Service Center (the “Educational Service Center”) is located in Archbold, Ohio, in Fulton County. The Educational Service Center supplies supervisory, special education, administrative, and other services to seventeen local, three exempted village, and three city school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Governing Board elected from subdistricts within the four county area (Defiance, Fulton, Henry, and Williams counties). The Board consists of nine members elected for staggered four year terms. The Educational Service Center has seventeen administrators, three hundred fourteen classified employees, and three hundred one certified employees who provide services to the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Northwest Ohio Educational Service Center, this consists of general operations.

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

The Educational Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Schools of Ohio Risk Sharing Authority, the Northern Buckeye Health Plan, and the Northern Buckeye Education Council Workers’ Compensation Group Rating Plan. Information about these organizations is presented in Notes 17 and 18 to the basic financial statements.

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

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no business-type activities.

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

**Fund Financial Statements**

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds used by the Educational Service Center, governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows of resources is reported as fund balance. The Educational Service Center's three major funds are the General Fund, Migrant and Ohio Migrant Education Center, and the Title VI-B special revenue funds.

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

Migrant and Ohio Migrant Education Center (OMEC) Fund - The Migrant and OMEC Fund is used to account for grant resources received through the Ohio Department of Education and restricted to providing support for students and their teachers as students migrate with their families within Ohio looking for agricultural jobs.

Title VI-B Fund - The Title VI-B Fund is used to account for grant resources received through the Ohio Department of Education and restricted to providing support for educating handicapped students. Some of these resources are also passed through or spent on behalf of the local, exempted village, and city school districts served by the Educational Service Center.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2016. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for various payroll related deductions.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**C. Measurement Focus**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

**Fund Financial Statements**

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

**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 and the fiduciary fund uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows and deferred inflows of resources, and in the presentation of expenses versus expenditures.

**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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

**Note 2 - Summary of Significant Accounting Policies** (continued)

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On the 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 both measurable and available at fiscal year end: grants, interest, tuition, fees, customer services, and rent.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 12 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources consists of unavailable revenue and pension. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes accrued interest, interfund, intergovernmental revenue including grants, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities on page 16. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 12 to the basic financial statements.

Expenses/Expenditures

On the accrual basis, 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.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**E. Cash and Investments**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in the pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

During fiscal year 2016, investments included negotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Investments are reported at fair value, which is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No.79, “Certain External Investment Pools and Pool Participants”. The Educational Service Center measures the investment in STAR Ohio at net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2016 was \$25,066, which includes \$2,395 assigned from other Educational Service Center funds.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Inventory**

Inventory is stated at cost on a first-in first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.



## **H. Capital Assets**

All of the Educational Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The Educational Service Center maintains a capitalization threshold of two thousand five hundred dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

All capital assets, except 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:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 years
Buildings and Building Improvements	20-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	8 years

## **I. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans or services provided are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net position.

## **J. Compensated Absences**

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

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

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Net Position**

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net position generally represents federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**M. Fund Balance**

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

**Nonspendable** - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

**N. Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2016, these funds included the Title VI-B (Individual Disabilities Education Act), Early Childhood Special Education, and Limited English Proficiency special revenue funds.

**O. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**P. Estimates**

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

**Note 3 - Change in Accounting Principles**

For fiscal year 2016, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 76, "Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 79, "Certain External Investment Pools and Pool Participants", and GASB Statement No. 82, "Pension Issues-an Amendment of GASB Statements No. 67, No. 69, and No. 73".

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

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

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

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

**Note 4 - Accountability**

At June 30, 2016, the Alternative Education Challenge Grant special revenue fund had a deficit fund balance of \$29 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 5 - Deposits and Investments**

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

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

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 5 - Deposits and Investments** (continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Investments

As of June 30, 2016, the Educational Service Center had the following investments:

Measurement/Investment	Fair Value	Maturity
Fair Value		
Negotiable Certificate of Deposit	\$125,071	1/27/17
Negotiable Certificate of Deposit	125,098	5/3/17
Negotiable Certificate of Deposit	123,161	10/30/17
Negotiable Certificate of Deposit	125,369	4/30/18
Negotiable Certificate of Deposit	161,538	7/16/18
Negotiable Certificate of Deposit	91,270	8/27/18
Negotiable Certificate of Deposit	96,353	10/22/18
Negotiable Certificate of Deposit	119,730	6/24/19
Federal Home Loan Mortgage Corporation Notes	115,056	6/29/18
Federal Home Loan Mortgage Corporation Notes	120,057	3/30/20
Federal Home Loan Mortgage Corporation Notes	55,030	5/26/21
Federal National Mortgage Association Notes	70,357	2/8/18
Federal National Mortgage Association Notes	60,012	4/30/18
Federal National Mortgage Association Notes	50,138	8/28/17
Federal National Mortgage Association Notes	105,037	2/26/21
Mutual Funds	2,082	47 days average
Mutual Funds	116,675	48 days average
Net Value per Share		
STAR Ohio	914,340	49 days average
Total Investments	\$2,576,374	

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Note 5 - Deposits and Investments** (continued)

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the Educational Service Center.

The negotiable certificates of deposit are covered by FDIC and/or SIPC insurance. All of the federal agency securities and mutual funds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The Educational Service Center limits the amount it may invest in any one issuer to no more than 80 percent of its total investment portfolio. The following table indicates the percentage of investments to the Educational Service Center's total portfolio:

	Fair Value	Percentage of Portfolio
Negotiable Certificates of Deposit	\$967,590	37.6%
Federal Home Loan Mortgage Corporation	290,143	11.3
Federal National Mortgage Association	285,544	11.1

**Note 6 - State Funding**

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 6 - State Funding** (continued)

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$27 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

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

**Note 7 - Receivables**

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

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Major Funds	
General Fund	
Program Costs	\$24,760
Various School Districts	128,306
Miscellaneous	186
Total General Fund	153,252
Migrant and OMEC	315,665
Title VI-B	1,054
Total Major Funds	469,971
Other Governmental Funds	
Miscellaneous State Grants	1,685
Miscellaneous Federal Grants	65,800
Total Other Governmental Funds	67,485
Total Intergovernmental Receivables	\$537,456



Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 8 - Capital Assets**

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

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$215,200	\$0	\$0	\$215,200
Depreciable Capital Assets				
Land Improvements	39,404	0	0	39,404
Buildings and Building Improvements	6,406,745	0	(111,820)	6,294,925
Furniture, Fixtures, and Equipment	617,008	24,150	(18,218)	622,940
Vehicles	161,749	56,650	0	218,399
Total Depreciable Capital Assets	<u>7,224,906</u>	<u>80,800</u>	<u>(130,038)</u>	<u>7,175,668</u>
Less Accumulated Depreciation				
Land Improvements	(20,269)	(1,970)	0	(22,239)
Buildings and Building Improvements	(882,609)	(135,233)	103,620	(914,222)
Furniture, Fixtures, and Equipment	(315,340)	(42,469)	8,360	(349,449)
Vehicles	(140,611)	(7,837)	0	(148,448)
Total Accumulated Depreciation	<u>(1,358,829)</u>	<u>(187,509)</u>	<u>111,980</u>	<u>(1,434,358)</u>
Depreciable Capital Assets, Net	<u>5,866,077</u>	<u>(106,709)</u>	<u>(18,058)</u>	<u>5,741,310</u>
Governmental Activities				
Capital Assets, Net	<u>\$6,081,277</u>	<u>(\$106,709)</u>	<u>(\$18,058)</u>	<u>\$5,956,510</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,549
Special	16,435
Support Services:	
Pupils	22,601
Instructional Staff	37,327
Board of Education	185
Administration	16,150
Fiscal	7,404
Business	2,323
Operation and Maintenance of Plant	22,928
Central	60,607
Total Depreciation Expense	<u>\$187,509</u>

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Note 9 - Interfund Assets/Liabilities**

At June 30, 2016, the General Fund had an interfund receivable from other governmental funds for services provided, in the amount of \$4,581, and for short-term loans made to those funds, in the amount of \$2,602.

**Note 10 - Risk Management**

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

Coverage provided through Schools of Ohio Risk Sharing Authority is as follows:

General Liability	
Per Occurrence	\$15,000,000
Total per Year	17,000,000
Auto Coverage	
Liability	15,000,000
Uninsured Motorist	1,000,000
Commercial Property	200,100,000

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

For fiscal year 2016, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

The Educational Service Center participates in the Northern Buckeye Health Plan (Plan), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Educational Service Center pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Plan. The agreement for the Plan provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Plan, a participant is responsible for any claims not processed and paid and any related administrative costs.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Note 10 - Risk Management** (continued)

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**Note 11 - Contractual Commitments**

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2017 are as follows:

General Fund	\$122,624
Migrant and OMEC	144,944
Other Governmental Funds	<u>22,758</u>
Total	<u><u>\$290,326</u></u>

**Note 12 - 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 have already occurred.

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

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 12 - Defined Benefit Pension Plans** (continued)

GASB Statement No. 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 the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty 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 fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

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

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

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; 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; Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over thirty years. 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 3 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.

**Note 12 - Defined Benefit Pension Plans** (continued)

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

The Educational Service Center's contractually required contribution to SERS was \$546,466 for fiscal year 2016. Of this amount, \$69,427 is reported as an intergovernmental payable.

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

Plan Description - Educational Service Center licensed teachers and other certified 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 publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307.

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

The DCP allows members to place all their member contributions and 9.5 percent of the 14 percent employer contribution 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

**Note 12 - Defined Benefit Pension Plans** (continued)

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

New members who choose the DCP or CP 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 CP 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 Statement No. 68 reporting purposes.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The Educational Service Center's contractually required contribution to STRS was \$1,019,316 for fiscal year 2016. Of this amount, \$134,313 is reported as an intergovernmental payable.

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

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 12 - Defined Benefit Pension Plans** (continued)

Following is information related to the proportionate share and pension expense.

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.13811600%	0.07897801%	
Proportion of the Net Pension Liability Current Measurement Date	0.13354120%	0.07361897%	
Change in Proportionate Share	<u>0.00457480%</u>	<u>0.00535904%</u>	
Proportionate Share of the Net Pension Liability	\$7,619,990	\$20,346,130	\$27,966,120
Pension Expense	\$419,249	\$615,283	\$1,034,532

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

	SERS	STRS	Total
<b>Deferred Outflows of Resources</b>			
Differences Between Expected and Actual Experience	\$122,696	\$927,527	\$1,050,223
Educational Service Center Contributions Subsequent to the Measurement Date	546,466	1,019,316	1,565,782
Total Deferred Outflows of Resources	<u>\$669,162</u>	<u>\$1,946,843</u>	<u>\$2,616,005</u>
<b>Deferred Inflows of Resources</b>			
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$252,476	\$1,463,271	\$1,715,747
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	199,536	1,239,669	1,439,205
Total Deferred Inflows of Resources	<u>\$452,012</u>	<u>\$2,702,940</u>	<u>\$3,154,952</u>

\$1,565,782 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 12 - Defined Benefit Pension Plans** (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

Fiscal Year Ended June 30,	SERS	STRS	Total
2017	(\$155,436)	(\$640,129)	(\$795,565)
2018	(155,436)	(640,129)	(795,565)
2019	(156,017)	(640,129)	(796,146)
2020	137,573	144,974	282,547
Total	(\$329,316)	(\$1,775,413)	(\$2,104,729)

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

**Actuarial Assumptions - SERS**

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

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal



Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 12 - Defined Benefit Pension Plans** (continued)

For postretirement 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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes. The target allocation and the long-term expected real rate of return for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00%	0.00%
U.S. Stocks	22.50	5.00
Non-U.S. 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 earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 12 - Defined Benefit Pension Plans** (continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$10,566,188	\$7,619,990	\$5,139,049

**Actuarial Assumptions - STRS**

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 12 - Defined Benefit Pension Plans** (continued)

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

Asset Class	Target Allocation	Long-Term Expected Nominal 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%	

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent.

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$28,262,309	\$20,346,130	\$13,651,820

**Note 12 - Defined Benefit Pension Plans** (continued)

**Social Security**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2016, three of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 13 - Postemployment Benefits**

**School Employees Retirement System (SERS)**

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 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 by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2016, the Educational Service Center's surcharge obligation was \$63,967.

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 was \$0, \$33,280, and \$5,588, respectively. The full amount has been contributed for all three fiscal years.

**Note 13 - Postemployment Benefits** (continued)

**State Teachers Retirement System (STRS)**

Health Care Plan Description - The Educational Service Center participates in the cost-sharing multiple-employer defined benefit health care 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 the plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016, and June 30, 2015, STRS did not allocate any employer contributions to postemployment health care. For the fiscal year ended June 30, 2014, 1 percent of covered payroll was allocated to postemployment health care. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, \$78,946 respectively. The full amount has been contributed for all three fiscal years.

**Note 14 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from Board policy and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees, the superintendent, and directors upon termination of employment. Teachers do not earn vacation time.

Teachers, the superintendent, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty-five days. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of forty-six and one-fourth days for all employees.

**B. Health Care Benefits**

The Educational Service Center participates in the Northern Buckeye Health Plan. Through this program, the Educational Service Center offers medical, dental, and life insurance benefits. Depending upon the coverage selected, the employees share the cost of the monthly premium with the Board.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 15 - Long-Term Obligations**

Changes in the Educational Service Center's long-term obligations during fiscal year 2016 were as follows:

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16	Amounts Due Within One Year
Governmental Activities					
Net Pension Liability					
SERS	\$6,989,972	\$630,018	\$0	\$7,619,990	\$0
STRS	19,210,186	1,135,944	0	20,346,130	0
Total Net Pension Liability	26,200,158	1,765,962	0	27,966,120	0
Loan Payable	511,062	0	511,062	0	0
Compensated Absences Payable	902,569	110,538	128,855	884,252	63,182
Total Governmental Activities	\$27,613,789	\$1,876,500	\$639,917	\$28,850,372	\$63,182

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 12 to the basic financial statements.

Loan Payable - On September 1, 2010, the Educational Service Center obtained a loan, in the amount of \$1,258,000, to acquire a building. The loan was issued for an eight year period, with final maturity during fiscal year 2019. The loan was fully retired during fiscal year 2016.

Compensated absences will be paid from the General Fund and the Migrant and OMEC and Miscellaneous Federal Grants special revenue funds.

**Note 16 - Fund Balance**

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

Fund Balance	General	Migrant and OMEC	Title VI-B	Other Governmental	Total Governmental Funds
Nonspendable for:					
Prepaid Items	\$10,773	\$410	\$9	\$1,260	\$12,452
Materials and Supplies Inventory	10,168	0	0	0	10,168
Total Nonspendable	20,941	410	9	1,260	22,620

(continued)

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**Note 16 - Fund Balance** (continued)

Fund Balance	General	Migrant and OMECE	Title VI-B	Other Governmental	Total Governmental Funds
Restricted for:					
Non-Instructional Services	\$0	\$0	\$0	\$13,273	\$13,273
Permanent Improvements	0	0	0	183,729	183,729
Regular Instruction	0	0	0	57,667	57,667
Special Instruction	0	122,056	1,054	0	123,110
<b>Total Restricted</b>	<b>0</b>	<b>122,056</b>	<b>1,054</b>	<b>254,669</b>	<b>377,779</b>
Assigned for:					
Unpaid Obligations	105,119	0	0	0	105,119
Unassigned (Deficit)	968,978	0	0	(103)	968,875
<b>Total Fund Balance</b>	<b>\$1,095,038</b>	<b>\$122,466</b>	<b>1,063</b>	<b>\$255,826</b>	<b>\$1,474,393</b>

**Note 17 - Jointly Governed Organizations**

**A. Northwest Ohio Computer Association**

The Educational Service Center is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2016, the Educational Service Center paid \$37,306 to NWOCA for various services. Financial information can be obtained from NWOCA, 209 Nolan Parkway, Archbold, Ohio 43502.

**Note 17 - Jointly Governed Organizations** (continued)

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, 209 Nolan Parkway, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The degree of control exercised by the Educational Service Center is limited to its representation on the Board. The Career Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, 22-900 State Route 34, Archbold, Ohio 43502.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.



**Note 18 - Insurance Pools**

**A. Schools of Ohio Risk Sharing Authority**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

**B. Northern Buckeye Health Plan**

The Northern Buckeye Health Plan (Plan), is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Plan is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

**C. Northern Buckeye Education Council Workers' Compensation Group Rating Plan**

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Notes 19 - Contingencies**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2016.

**B. Litigation**

There are currently no matters in litigation with the Educational Service Center as defendant.

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

	2015	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.13354120%	0.13811600%	0.13811600%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$7,619,990	\$6,989,972	\$8,213,315
Educational Service Center's Covered Employee Payroll	\$4,058,536	\$3,991,588	\$4,407,519
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	187.75%	175.12%	186.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the measurement date which is the prior fiscal year end.

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

	2015	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.07361897%	0.07897801%	0.07897801%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$20,346,130	\$19,210,186	\$22,883,047
Educational Service Center's Covered Employee Payroll	\$7,663,879	\$7,894,608	\$9,338,046
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	265.48%	243.33%	245.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the measurement date which is the prior fiscal year end.

Northwest Ohio Educational Service Center  
 Required Supplementary Information  
 Schedule of the Educational Service Center's Contributions  
 School Employees Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$546,466	\$534,915	\$522,898	\$577,385
Contributions in Relation to the Contractually Required Contribution	<u>(546,466)</u>	<u>(534,915)</u>	<u>(522,898)</u>	<u>(577,385)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Employee Payroll	\$3,903,329	\$4,058,536	\$3,991,588	\$4,407,519
Contributions as a Percentage of Covered Employee Payroll	14.00%	13.18%	13.10%	13.10%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$600,385	\$562,355	\$579,986	\$422,228	\$423,624	\$433,589
<u>(600,385)</u>	<u>(562,355)</u>	<u>(579,986)</u>	<u>(422,228)</u>	<u>(423,624)</u>	<u>(433,589)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,727,441	\$4,761,685	\$4,538,232	\$4,644,972	\$4,624,716	\$4,059,822
12.70%	11.81%	12.78%	9.09%	9.16%	10.68%

Northwest Ohio Educational Service Center  
 Required Supplementary Information  
 Schedule of the Educational Service Center's Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$1,019,316	\$1,072,943	\$1,026,299	\$1,213,946
Contributions in Relation to the Contractually Required Contribution	<u>(1,019,316)</u>	<u>(1,072,943)</u>	<u>(1,026,299)</u>	<u>(1,213,946)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Employee Payroll	\$7,280,829	\$7,663,879	\$7,894,608	\$9,338,046
Contributions as a Percentage of Covered Employee Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$1,283,197	\$1,264,384	\$1,198,542	\$1,291,251	\$1,297,316	\$1,239,096
<u>(1,283,197)</u>	<u>(1,264,384)</u>	<u>(1,198,542)</u>	<u>(1,291,251)</u>	<u>(1,297,316)</u>	<u>(1,239,096)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$9,870,746	\$9,726,031	\$9,219,554	\$9,932,700	\$9,979,354	\$9,531,508
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%



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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$673,245	
Interest			14,684	
Tuition and Fees			13,841,398	
Customer Services			1,278,095	
Gifts and Donations			7,138	
Miscellaneous			69,113	
Total Revenues			<u>15,883,673</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	\$239,671	\$863,743	777,840	\$85,903
Special	8,417,681	8,396,875	7,696,012	700,863
Support Services:				
Pupils	4,231,681	4,332,826	3,962,832	369,994
Instructional Staff	1,600,095	2,001,806	1,819,878	181,928
Board of Education	91,123	121,653	111,919	9,734
Administration	555,483	613,968	581,644	32,324
Fiscal	536,198	549,698	498,351	51,347
Business	14,000	15,000	14,277	723
Operation and Maintenance of Plant	454,448	543,498	498,419	45,079
Pupil Transportation	73,041	114,503	91,683	22,820
Central	172,963	176,028	157,316	18,712
Non-Instructional Services	5,134	48,090	41,970	6,120
Debt Service:				
Principal Retirement	484,038	484,038	405,419	78,619
Interest and Fiscal Charges	816	816	816	0
Total Expenditures	<u>16,876,372</u>	<u>18,262,542</u>	<u>16,658,376</u>	<u>1,604,166</u>
Excess of Revenues				
Under Expenditures	<u>(16,876,372)</u>	<u>(18,262,542)</u>	<u>(774,703)</u>	<u>17,487,839</u>
<u>Other Financing Uses:</u>				
Refund of Prior Year Receipts	(1,000)	(1,000)	0	1,000
Advances Out	0	0	(2,602)	(2,602)
Transfers Out	(10,000)	(10,000)	0	10,000
Total Other Financing Uses	<u>(11,000)</u>	<u>(11,000)</u>	<u>(2,602)</u>	<u>8,398</u>
Changes in Fund Balance	(16,887,372)	(18,273,542)	(777,305)	17,496,237
Fund Balance at Beginning of Year	3,234,245	3,234,245	3,234,245	0
Prior Year Encumbrances Appropriated	\$113,362	\$113,362	113,362	0
Fund Balance at End of Year			<u>\$2,570,302</u>	<u>\$17,496,237</u>

See Accompanying Notes to the Supplemental Section

Northwest Ohio Educational Service Center  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
Migrant and OMEC Fund  
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$666,467	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	\$147,808	\$167,661	102,893	\$64,768
Support Services:				
Instructional Staff	866,246	884,812	638,609	246,203
Fiscal	84,384	77,015	80,597	(3,582)
Operation and Maintenance of Plant	51,277	45,874	29,478	16,396
Pupil Transportation	27,402	21,926	14,140	7,786
Non-Instructional Services	33,257	33,969	16,593	17,376
Total Expenditures	<u>1,210,374</u>	<u>1,231,257</u>	<u>882,310</u>	<u>348,947</u>
Changes in Fund Balance	(1,210,374)	(1,231,257)	(215,843)	1,015,414
Fund Balance at Beginning of Year	64,208	64,208	64,208	0
Prior Year Encumbrances Appropriated	\$44,826	\$44,826	44,826	0
Fund Balance (Deficit) at End of Year			<u>(\$106,809)</u>	<u>\$1,015,414</u>

See Accompanying Notes to the Supplemental Section

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$2,697,419	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	\$2,669,656	\$2,669,656	2,669,656	\$0
Support Services:				
Non-Instructional Services	28,817	28,817	28,817	0
Total Expenditures	<u>2,698,473</u>	<u>2,698,473</u>	<u>2,698,473</u>	<u>0</u>
Changes in Fund Balance	(2,698,473)	(2,698,473)	(1,054)	2,697,419
Fund Balance at Beginning of Year	\$0	\$0	0	0
Fund Balance at End of Year			<u>(\$1,054)</u>	<u>\$2,697,419</u>

See Accompanying Notes to the Supplemental Section

Northwest Ohio Educational Service Center  
Notes to the Supplemental Section  
For the Fiscal Year Ended June 30, 2016

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**Note 1 - Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year.

The Educational Service Center's Board adopts an annual appropriations resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund, function, and object level within the General Fund and the fund level for all other funds. The Chief Fiscal Officer has been authorized to allocate appropriations to the function and object level within all other 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 schedules reflect the amounts on the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedules represent the final appropriation amounts passed by the Board during the fiscal year.

**Note 2 - Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

Northwest Ohio Educational Service Center  
Notes to the Supplemental Section  
For the Fiscal Year Ended June 30, 2016

**Note 2 - Budgetary Basis of Accounting** (continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

	General Fund	Migrant and OMECE	Title VI-B
GAAP Basis	(\$516,733)	(\$73,402)	\$1,063
<u>Increase (Decrease) Due to:</u>			
Revenue Accruals:			
Accrued FY 2015, Received in Cash FY 2016	202,405	136,645	0
Accrued FY 2016, Not Yet Received in Cash	(170,241)	(218,500)	(1,054)
Expenditure Accruals:			
Accrued FY 2015, Paid in Cash FY 2016	(1,948,633)	(49,811)	0
Accrued FY 2016, Not Yet Paid in Cash	1,800,594	134,579	0
Unrecorded Cash Activity 2015	1,017	0	0
Unrecorded Cash Activity 2016	(8,922)	0	0
Prepaid Items	(10,773)	(410)	(9)
Materials and Supplies Inventory	(793)	0	0
Advances Out	(2,602)	0	0
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(122,624)	(144,944)	(1,054)
Budget Basis	(\$777,305)	(\$215,843)	(\$1,054)

NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
Migrant Education State Grant Program	84.011		\$737,366
<u>Special Education Cluster (IDEA):</u>			
Special Education - Grants to States (IDEA, Part B)	84.027		2,697,419
Special Education - Preschool Grants (IDEA, Preschool)	84.173		172,211
Total Special Education Cluster (IDEA)			<u>2,869,630</u>
Twenty-First Century Community Learning Centers	84.287		731,597
English Language Acquisition State Grants	84.365		33,007
Improving Teacher Quality State Grants	84.367		<u>4,059</u>
Total U.S. Department of Education			<u><b>4,375,659</b></u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed Through Ohio Department of Mental Health and Addiction Services:</i>			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	99-60202-SSHS-P-15-1451	68,074
		99-13505-SSHS-P-16-1451	<u>488,693</u>
Total U.S. Department of Health and Human Services			<u>556,767</u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$4,932,426</b></u>

*The accompanying notes are an integral part of this schedule.*

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

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

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

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

**NOTE C - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2016 to 2017 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Migrant Education State Grant Program	84.011	\$ 140,091





# Dave Yost • Auditor of State

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

Northwest Ohio Educational Service Center  
Fulton County  
205 Nolan Parkway  
Archbold, Ohio 43502-8404

To the Board of Education:

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 Northwest Ohio Educational Service Center, Fulton County, Ohio (the Center) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 23, 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 opinions 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 a 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.

### ***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*.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246  
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***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.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 23, 2017



# Dave Yost • Auditor of State

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

Northwest Ohio Educational Service Center  
Fulton County  
205 Nolan Parkway  
Archbold, Ohio 43502-8404

To the Board of Education:

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

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

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

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

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

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

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

### ***Basis for Qualified Opinion on Substance Abuse and Mental Health Services – Projects of Regional and National Significance and Special Education Cluster (IDEA)***

As described in findings 2016-001 and 2016-002 in the accompanying schedule of findings, the Center did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-001	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Cash Management
2016-002	84.027 84.173	Special Education Cluster (IDEA)	Cash Management

Compliance with these requirements is necessary, in our opinion, for the Center to comply with requirements applicable to these programs.

***Qualified Opinion on Substance Abuse and Mental Health Services – Projects of Regional and National Significance and Special Education Cluster (IDEA)***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Substance Abuse and Mental Health Services – Projects of Regional and National Significance and Special Education Cluster (IDEA)* paragraph, the Northwest Ohio Educational Service Center, Fulton County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Substance Abuse and Mental Health Services – Projects of Regional and National Significance and Special Education Cluster (IDEA)* for the year ended June 30, 2016.

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings as items 2016-001 and 2016-002.

Northwest Ohio Educational Service Center  
Fulton County  
Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Federal Program and on Internal Control  
Over Compliance in Accordance with the Uniform Guidance  
Page 2

The Center's responses to our internal control over compliance findings are described in the accompanying corrective action plan. We did not audit the Center's responses and, accordingly, we express no opinion on them.

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 23, 2017

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**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

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

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (IDEA) Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CFDA #93.243
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

**Cash Management**

<b>Finding Number</b>	2016-001		
<b>CFDA Title and Number</b>	Substance Abuse and Mental Health Services – Projects of Regional and National Significance– CFDA #93.243		
<b>Federal Award Identification Number / Year</b>	99-60202-SSHS-P-15-1451 99-13505-SSHS-P-16-1451		
<b>Federal Agency</b>	U.S. Department of Health and Human Services		
<b>Pass-Through Entity</b>	Ohio Department of Mental Health and Addiction Services		
<b>Repeat Finding from Prior Audit?</b>	No	<b>Finding Number (if repeat)</b>	N/A

**Noncompliance Citation and Material Weakness**

**2 C.F.R. § 200.305 (b)(1)** provides, in part, that “[a]dvance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs.”

Review of activity in the Center's Projects of Regional and National Significance Funds (Safe Schools/Healthy Students) showed monies received by electronic transfer were not spent by the projected date per the Federal Non-SAPT Funding Request for five of six funding requests, ranging from 25 to 106 days later than the projected date. The Educational Service Center (the Center) did not sufficiently monitor the timing of expending the requested funds for the Safe Schools/Healthy Students grant funds, which resulted in this noncompliance.

We recommend the Center make improvements to the procedures for expending the requested monies by the projected date on the Funding Request Form.

**Officials' Response**

See Corrective Action Plan.



**Cash Management**

<b>Finding Number</b>	2016-002		
<b>CFDA Title and Number</b>	<u>Special Education Cluster (IDEA):</u> Special Education – Grants to State (IDEA, Part B) – CFDA #84.027 Special Education – Preschool Grants (IDEA, Preschool) – CFDA #84.173		
<b>Federal Award Identification Number / Year</b>	2016		
<b>Federal Agency</b>	U.S. Department of Education		
<b>Pass-Through Entity</b>	Ohio Department of Education		
<b>Repeat Finding from Prior Audit?</b>	No	<b>Finding Number (if repeat)</b>	N/A

**Noncompliance Citation and Material Weakness**

**2 C.F.R. § 200.305 (b)(1)** provides, in part, that “advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs.” The Ohio Department of Education requires that funds are liquidated within five days.

Review of activity in the Center's Projects of Special Education Cluster (IDEA) Funds (Grants to State and Preschool Grants) showed monies received by electronic transfer were not spent within five days of receipt for two of thirty-seven project cash requests, ranging from 51 to 56 days after receipt. The Educational Service Center (the Center) did not sufficiently monitor the timing of expending the requested funds for the Special Education Cluster (IDEA) grant funds, which resulted in this noncompliance.

We recommend the Center make improvements to the procedures for expending the requested monies within five days of receipt.

**Officials' Response**

See Corrective Action Plan.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.511(c)  
JUNE 30, 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	Management is aware and understands the importance of the timely liquidation of advanced Federal grant funds and will ensure that future grant cash management requirements are identified and applied.	FY2017	Homer Hendricks, CFO/Treasurer
2016-002	Management is aware and understands the importance of the timely liquidation of advanced Federal grant funds and will ensure that future grant cash management requirements are identified and applied.	FY2017	Homer Hendricks, CFO/Treasurer



# Dave Yost • Auditor of State

NORTHWEST OHIO EDUCATIONAL SERVICE CENTER

FULTON 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  
APRIL 6, 2017