



Dave Yost • Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY
JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Board of Governors:

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 North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the ESC'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 ESC'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 ESC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2017, the ESC restated the beginning balance of net position in Governmental Activities and the beginning fund balance in the Miscellaneous State Grants Fund to properly report a portion of fund balance in the proper fund type. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund and Miscellaneous State Grants Fund present additional analysis and are not a required part of the basic financial statements.

The Schedule of Receipts and 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 this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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, this information is 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 22, 2018, on our consideration of the ESC'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 ESC's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 22, 2018

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position of governmental activities decreased \$254,565 which represents a 0.76% decrease from 2016's restated net position.
- General revenues accounted for \$1,053,232 in revenue or 5.44% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$18,302,481 or 94.56% of total revenues of \$19,355,713.
- The ESC had \$19,610,278 in expenses related to governmental activities; \$18,302,481 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,053,232 were inadequate to provide for these programs.
- The ESC's two major governmental funds are the General Fund and the Miscellaneous State Grants Fund. The General Fund had \$16,949,139 in revenues and other financing sources and \$17,029,382 in expenditures and other financing uses. During fiscal year 2017, the General Fund's fund balance decreased \$80,243 from a deficit balance of \$1,178,502 to a deficit balance of \$1,258,745.
- The Miscellaneous State Grants Fund had \$643,747 in revenues and other financing sources and \$674,594 in expenditures. During fiscal year 2017, the Miscellaneous State Grants Fund's fund balance decreased \$30,847 from a restated fund balance of \$17,787 to a deficit balance of \$13,060.

Using these Basic Financial Statements

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

The *statement of net position* and *statement of activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the General Fund and the Miscellaneous State Grants Fund are by far the most significant funds, and the only two governmental funds reported as major funds.

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses*

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using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net position and the statement of activities, the governmental activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the General Fund and the Miscellaneous State Grants Fund.

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the ESC's net pension liability.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

Supplementary Information

The ESC has presented budgetary comparison schedules for the General Fund and Miscellaneous State Grants Fund as supplementary information.

The ESC as a Whole

The statement of net position provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net position at June 30, 2017 and June 30, 2016. The net position at June 30, 2016 has been restated as described in Note 3.C.

	Net Position	
	Governmental Activities	Restated Governmental Activities
	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets	\$ 1,988,567	\$ 858,818
Capital assets, net	<u>3,672,655</u>	<u>3,713,431</u>
Total assets	<u>5,661,222</u>	<u>4,572,249</u>
<u>Deferred Outflows of Resources</u>		
Pension	<u>7,426,314</u>	<u>2,983,492</u>
<u>Liabilities</u>		
Current liabilities	2,561,079	1,828,837
Long-term liabilities:		
Due within one year	295,472	283,015
Due in more than one year:		
Net pension liability	37,830,376	29,935,381
Other amounts	<u>3,804,599</u>	<u>3,457,095</u>
Total liabilities	<u>44,491,526</u>	<u>35,504,328</u>
<u>Deferred Inflows of Resources</u>		
Pension	<u>2,316,144</u>	<u>5,516,982</u>
<u>Net Position</u>		
Net investment in capital assets	778,594	678,116
Restricted	522,030	45,166
Unrestricted (deficit)	<u>(35,020,758)</u>	<u>(34,188,851)</u>
Total net position (deficit)	<u>\$ (33,720,134)</u>	<u>\$ (33,465,569)</u>

During a prior fiscal year, the ESC adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District'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.

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

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

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

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

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

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

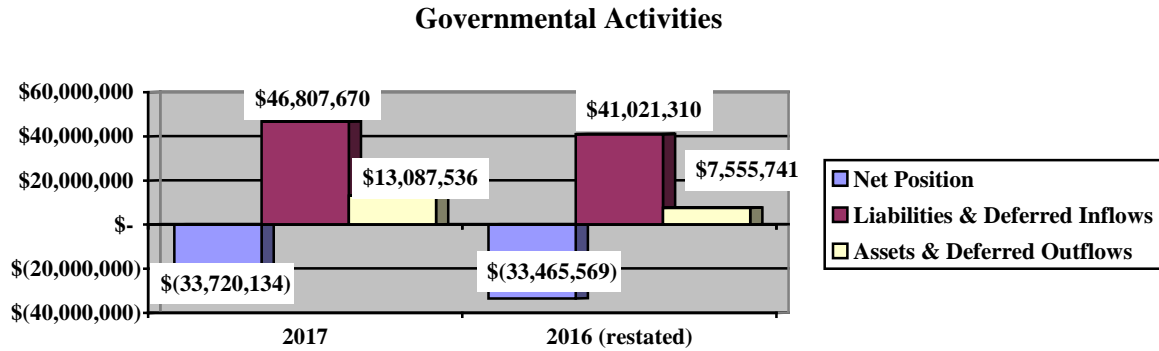
As a result of implementing GASB 68, the ESC is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the ESC's liabilities and deferred inflows exceeded assets and deferred outflows by \$33,720,134. Of this total, \$522,030 is restricted in use leaving the ESC with unrestricted net position with a deficit of \$35,020,758.

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The graph below illustrates the ESC's governmental activities assets, liabilities, and net position at June 30, 2017 and June 30, 2016. The net position at June 30, 2016 has been restated as described in Note 3.C.



The table below shows the change in net position for fiscal years 2017 and 2016. The net position at June 30, 2016 has been restated as described in Note 3.C.

	Change in Net Position	
	Governmental Activities <u>2017</u>	Restated Governmental Activities <u>2016</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 15,797,231	\$ 16,745,615
Operating grants and contributions	2,505,250	1,946,203
General revenues:		
Grants and entitlements, unrestricted	856,128	855,346
Investment earnings	7,468	1,178
Other	<u>189,636</u>	<u>237,146</u>
Total revenues	<u>19,355,713</u>	<u>19,785,488</u>

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	Change in Net Position - (Continued)	
	Governmental	Restated
	Activities	Governmental
	<u>2017</u>	<u>2016</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 1,969,798	\$ 1,774,746
Special	3,931,432	3,409,705
Vocational	388,117	-
Other	235,613	135,482
Support services:		
Pupil	4,133,477	5,499,123
Instructional staff	3,423,184	2,875,704
Board of education	76,559	73,505
Administration	1,810,280	1,912,114
Fiscal	927,378	797,208
Business	212,469	183,883
Operations and maintenance	481,511	502,169
Pupil transportation	111,565	95,665
Central	1,061,853	953,483
Operations of non-instructional services:		
Other non-instructional services	258,665	244,451
Food service operations	32,199	23,752
Intergovernmental	450,000	-
Extracurricular activities	5,299	1,569
Interest and fiscal charges	100,879	112,206
Total expenses	<u>19,610,278</u>	<u>18,594,765</u>
Change in net position	(254,565)	1,190,723
Net position (deficit) at beginning of year	<u>(33,465,569)</u>	<u>(34,656,292)</u>
Net position (deficit) at end of year	<u><u>\$ (33,720,134)</u></u>	<u><u>\$ (33,465,569)</u></u>

Governmental Activities

Net position of the ESC's governmental activities decreased \$254,565. Total governmental expenses of \$19,610,278 were not adequately offset by program revenues of \$18,302,481 and general revenues of \$1,053,232. Program revenues supported 93.33% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 81.62% of total governmental revenue.

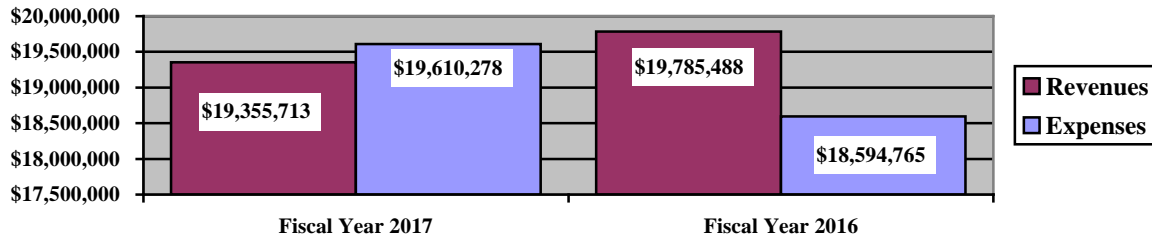
The largest expense of the ESC is for support services. Support services expenses totaled \$12,238,276 or 62.41% of total governmental expenses for fiscal year 2017. The \$1,015,513 increase in expenses is the result of increases in all instruction expenses as well as a significant increase in instructional staff related to accrued liabilities and significant increase in intergovernmental related to a transaction between the ESC and Seneca County as described in Note 9.

The graph below presents the ESC's governmental activities revenues and expenses for fiscal year 2017 and 2016. The revenues and expenses in fiscal year 2016 have been restated as described in Note 3.C.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities - Revenues and Expenses



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

Governmental Activities

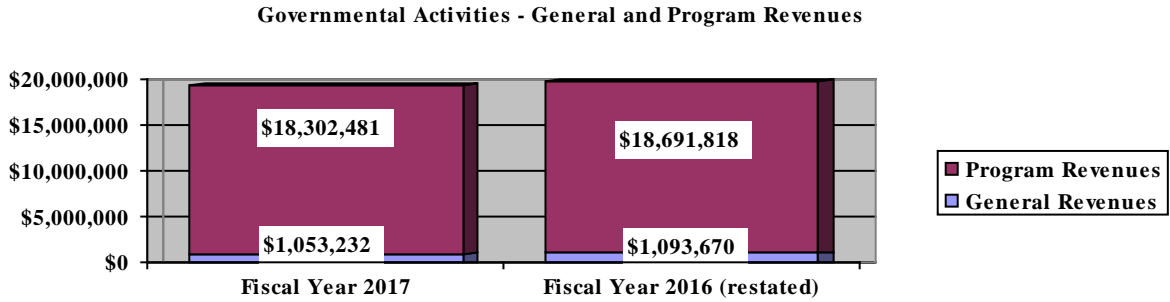
	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>	Restated Total Cost of Services <u>2016</u>	Restated Net Cost of Services <u>2016</u>
Program expenses				
Instruction:				
Regular	\$ 1,969,798	\$ 125,563	\$ 1,774,746	\$ (70,696)
Special	3,931,432	(47,186)	3,409,705	(240,691)
Vocational	388,117	388,117	-	-
Other	235,613	235,613	135,482	135,482
Support services:				
Pupil	4,133,477	(40,675)	5,499,123	(306,169)
Instructional staff	3,423,184	(23,921)	2,875,704	(134,622)
Board of education	76,559	76,508	73,505	73,505
Administration	1,810,280	(11,418)	1,912,114	(100,291)
Fiscal	927,378	(7,614)	797,208	(38,646)
Business	212,469	212,469	183,883	183,883
Operations and maintenance	481,511	(27,644)	502,169	4,348
Pupil transportation	111,565	111,565	95,665	85,054
Central	1,061,853	(41,838)	953,483	(17,714)
Operations of non-instructional services:				
Other non-instructional services	258,665	254,906	244,451	175,344
Food service operations	32,199	(397)	23,752	1,567
Intergovernmental	450,000	-	-	-
Extracurricular activities	5,299	2,870	1,569	(1,062)
Interest and fiscal charges	100,879	100,879	112,206	112,206
Total expenses	\$ 19,610,278	\$ 1,307,797	\$ 18,594,765	\$ (138,502)

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(Continued)

For all governmental activities, program revenue support is 93.33%. The primary support for the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenues for fiscal year 2017 and 2016. The revenues in fiscal year 2016 have been restated as described in Note 3.C.



The ESC's Funds

The ESC's governmental funds reported a combined fund balance deficit of \$1,299,061, which reflects a larger deficit than the \$1,134,240 in fiscal year 2016. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016. The fund balances at June 30, 2016 have been restated as described in Note 3.C.

	Fund Balance (deficit) <u>June 30, 2017</u>	Restated Fund Balance (deficit) <u>June 30, 2016</u>	<u>Change</u>	<u>Percentage Change</u>
General	\$ (1,258,745)	\$ (1,178,502)	\$ (80,243)	(6.81) %
Miscellaneous State Grants	(13,060)	17,787	(30,847)	173.42 %
Other Governmental	<u>42,744</u>	<u>26,475</u>	<u>16,269</u>	61.45 %
Total	<u>\$ (1,229,061)</u>	<u>\$ (1,134,240)</u>	<u>\$ (94,821)</u>	(8.36) %

General Fund

The ESC's General Fund balance decreased by \$80,243.

Revenues of the General Fund decreased \$857,193 or 4.82%. The largest increase was in the area of tuition which increased \$941,277. Tuition increased due to Tiffin City Schools services being paid through State Foundation in fiscal year 2017 compared to contract services in the previous year. The largest decrease was in contract services which decreased \$1,654,941. This decrease was a result of the loss of services that were provided to Summit Academy Management and the Tomorrow Center.

Expenditures of the General Fund decreased \$646,486 or 3.71%. The most significant decrease was in the area of support services which decreased \$1,337,045. This decrease was a result of the termination of Summit Academy Management contract personnel.

The table that follows assists in illustrating the financial activities and fund balance of the General Fund.

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	<u>2017</u> <u>Amount</u>	<u>2016</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 11,269,090	\$ 10,327,813	\$ 941,277	9.11 %
Earnings on investments	7,468	1,178	6,290	533.96 %
Contract services	4,074,240	5,729,181	(1,654,941)	(28.89) %
Other revenues	710,697	861,298	(150,601)	(17.49) %
Intergovernmental	<u>856,128</u>	<u>855,346</u>	<u>782</u>	0.09 %
Total	<u>\$ 16,917,623</u>	<u>\$ 17,774,816</u>	<u>\$ (857,193)</u>	(4.82) %
<u>Expenditures</u>				
Instruction	\$ 5,981,226	\$ 5,280,241	\$ 700,985	13.28 %
Support services	10,481,982	11,819,027	(1,337,045)	(11.31) %
Non-instructional services	254,087	255,820	(1,733)	(0.68) %
Extracurricular activities	3,472	-	3,472	100.00 %
Capital outlay	31,516	53,404	(21,888)	(40.99) %
Debt service	<u>31,285</u>	<u>21,562</u>	<u>9,723</u>	45.09 %
Total	<u>\$ 16,783,568</u>	<u>\$ 17,430,054</u>	<u>\$ (646,486)</u>	(3.71) %

Miscellaneous State Grants Fund

The Miscellaneous State Grants Fund had \$643,747 in revenues and other financing sources and \$674,594 in expenditures. During fiscal year 2017, the Miscellaneous State Grants Fund's fund balance decreased \$30,847 from a restated balance of \$17,787 to a deficit balance of \$13,060. The decrease in fund balance was the result of adjustments for accrued liabilities and timing of grant receipts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the ESC had \$3,672,655 invested in land, buildings and improvements, furniture and equipment, vehicles and software. This entire amount is reported in governmental activities. The following table shows June 30, 2017 balances compared to June 30, 2016.

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

	<u>Governmental</u> <u>Activities</u> <u>2017</u>	<u>Governmental</u> <u>Activities</u> <u>2016</u>
Land	\$ 148,850	\$ 148,850
Building and improvements	3,302,547	3,358,459
Furniture and equipment	188,595	154,733
Vehicles	32,663	51,389
Software	<u>-</u>	<u>-</u>
Total	<u>\$ 3,672,655</u>	<u>\$ 3,713,431</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)
(Continued)

The overall decrease in capital assets of \$40,776 is due to depreciation of \$162,157 and disposals (net of accumulated depreciation) of \$3,130 exceeding capital outlays of \$124,511 in the fiscal year.

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

Debt Administration

At June 30, 2017, the ESC had a \$3,344,061 in promissory notes, capital leases, and loans payable outstanding. Of this amount, \$173,011 is due in one year with the remaining amount of \$3,171,050 due within more than one year. The following table summarizes the promissory note, capital lease, and loan payable outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2017</u>	<u>Governmental Activities 2016</u>
Promissory note	\$ 2,855,000	\$ 3,000,000
Capital lease	39,061	35,315
LGIF loan payable	<u>450,000</u>	<u>-</u>
 Total	 <u>\$ 3,344,061</u>	 <u>\$ 3,035,315</u>

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

Current Financial Related Activities

Fiscal year 2017 continued to be a time in which Ohio schools face financial challenges. In June, 2016 House Bill 390 was signed into law which reduced the per-pupil amount from \$27 to \$25 unless the ESC is designated as a "high-performing" ESC beginning with the 2016-2017 school year. Each ESC was required to submit an application demonstrating that they can provide a minimum of 5% savings to the districts they serve by providing services to them. All ESC's were identified as high performing and as a result the per-pupil funding base was increased back to \$27.

The ESC relies heavily on contracts with local, city, and exempted village school districts in Crawford, Seneca, Sandusky, Marion, Morrow, Union, and Wyandot Counties. In FY17, Tiffin City Schools has resumed taking contracted preschool services with the North Central Ohio ESC, and will be returning their alignment to us beginning July 1, 2017. The Greater Summit County Early Learning Center also began contracting with North Central Ohio ESC for personnel services in FY17, which resulted in new revenue of \$793,856.

The ESC closely monitors expenditures and determines cost cutting methods to preserve fund balance while meeting the needs of our educational partners through excellent service. We continue to grow by providing new services, programs, professional development and special education services on behalf of the schools we serve.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Tina Peyton, Treasurer, North Central Ohio Educational Service Center, 928 West Market Street, Suite A, Tiffin, Ohio 44883-2529.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,106,645
Receivables:	
Accounts.	30,339
Intergovernmental, net	851,583
Capital assets:	
Nondepreciable capital assets	148,850
Depreciable capital assets, net.	3,523,805
Capital assets, net	3,672,655
Total assets.	5,661,222
 Deferred outflows of resources:	
Pension - STRS	5,115,214
Pension - SERS	2,311,100
Total deferred outflows of resources.	7,426,314
 Liabilities:	
Accounts payable.	145,764
Accrued wages and benefits payable	1,523,777
Pension and postemployment benefits payable	248,358
Intergovernmental payable	42,311
Unearned revenue	597,317
Accrued interest payable	3,552
Long-term liabilities:	
Due within one year.	295,472
Due in more than one year:	
Net pension liability	37,830,376
Other amounts due in more than one year	3,804,599
Total liabilities	44,491,526
 Deferred inflows of resources:	
Pension - STRS.	1,727,413
Pension - SERS.	588,731
Total deferred inflows of resources	2,316,144
 Net position:	
Net investment in capital assets	778,594
Restricted for:	
Locally funded programs	24,143
State funded programs.	440,878
Federally funded programs	44,090
Other purposes	12,919
Unrestricted (deficit)	(35,020,758)
Total net position (deficit).	\$ (33,720,134)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 1,969,798	\$ 1,725,829	\$ 118,406	\$ (125,563)
Special	3,931,432	3,736,759	241,859	47,186
Vocational	388,117	-	-	(388,117)
Other	235,613	-	-	(235,613)
Support services:				
Pupil	4,133,477	4,165,510	8,642	40,675
Instructional staff	3,423,184	2,261,601	1,185,504	23,921
Board of education	76,559	-	51	(76,508)
Administration	1,810,280	1,529,860	291,838	11,418
Fiscal	927,378	847,875	87,117	7,614
Business	212,469	-	-	(212,469)
Operations and maintenance	481,511	438,051	71,104	27,644
Pupil transportation	111,565	-	-	(111,565)
Central	1,061,853	1,086,848	16,843	41,838
Operation of non-instructional services:				
Other non-instructional services	258,665	1,945	1,814	(254,906)
Food service operations	32,199	1,696	30,900	397
Intergovernmental	450,000	-	450,000	-
Extracurricular activities	5,299	1,257	1,172	(2,870)
Interest and fiscal charges	100,879	-	-	(100,879)
Total governmental activities	\$ 19,610,278	\$ 15,797,231	\$ 2,505,250	(1,307,797)
General revenues:				
Grants and entitlements not restricted to specific programs				856,128
Investment earnings				7,468
Miscellaneous				189,636
Total general revenues				1,053,232
Change in net position				(254,565)
Net position (deficit) at beginning of year (restated)				(33,465,569)
Net position (deficit) at end of year				\$ (33,720,134)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 1,060,510	\$ 138	\$ 45,997	\$ 1,106,645
Receivables:				
Accounts	29,736	-	603	30,339
Intergovernmental, net.	233,530	495,085	122,968	851,583
Due from other funds	1,652	-	-	1,652
Total assets	<u>\$ 1,325,428</u>	<u>\$ 495,223</u>	<u>\$ 169,568</u>	<u>\$ 1,990,219</u>
Liabilities:				
Accounts payable	\$ 97,350	\$ 24,396	\$ 24,018	\$ 145,764
Accrued wages and benefits payable	1,506,581	10,396	6,800	1,523,777
Compensated absences payable	42,444	-	12,233	54,677
Intergovernmental payable	27,848	113	14,350	42,311
Unearned revenue.	597,317	-	-	597,317
Pension and postemployment benefits payable	246,000	1,852	506	248,358
Due to other funds	-	-	1,652	1,652
Total liabilities.	<u>2,517,540</u>	<u>36,757</u>	<u>59,559</u>	<u>2,613,856</u>
Deferred inflows of resources:				
Intergovernmental revenue not available.	66,633	471,526	67,265	605,424
Total deferred inflows of resources	<u>66,633</u>	<u>471,526</u>	<u>67,265</u>	<u>605,424</u>
Fund balances:				
Restricted:				
Food service operations	-	-	12,919	12,919
Targeted academic assistance	-	-	1,059	1,059
Other purposes.	-	-	35,108	35,108
Unassigned (deficit).	(1,258,745)	(13,060)	(6,342)	(1,278,147)
Total fund balances (deficit)	<u>(1,258,745)</u>	<u>(13,060)</u>	<u>42,744</u>	<u>(1,229,061)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,325,428</u>	<u>\$ 495,223</u>	<u>\$ 169,568</u>	<u>\$ 1,990,219</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total governmental fund balances (deficit)		\$ (1,229,061)
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,672,655
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds. Intergovernmental receivable		605,424
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in governmental funds:		
Deferred outflows of resources - pension	7,426,314	
Deferred inflows of resources - pension	(2,316,144)	
Net pension liability	<u>(37,830,376)</u>	
Total		(32,720,206)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(3,552)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Notes payable	(2,855,000)	
Capital lease obligations	(39,061)	
Loans Payable	(450,000)	
Compensated absences	<u>(701,333)</u>	
Total		<u>(4,045,394)</u>
Net position (deficit) of governmental activities		\$ <u>(33,720,134)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Miscellaneous State Grants	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Tuition	\$ 11,269,090	\$ -	\$ -	\$ 11,269,090
Earnings on investments	7,468	-	-	7,468
Charges for services	-	-	1,696	1,696
Extracurricular	-	-	1,700	1,700
Classroom materials and fees	45	-	-	45
Contributions and donations	18,679	-	650	19,329
Contract services	4,074,240	-	7,279	4,081,519
Other local revenues	691,973	-	10,665	702,638
Intergovernmental - state	856,128	193,747	205,906	1,255,781
Intergovernmental - federal	-	-	1,569,674	1,569,674
Total revenues	<u>16,917,623</u>	<u>193,747</u>	<u>1,797,570</u>	<u>18,908,940</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,746,834	-	99,398	1,846,232
Special	3,645,590	-	237,939	3,883,529
Vocational	382,928	-	-	382,928
Other	205,874	-	-	205,874
Support services:				
Pupil	4,083,351	-	8,138	4,091,489
Instructional staff	2,200,963	194,499	985,227	3,380,689
Board of education	72,867	55	2,000	74,922
Administration	1,500,734	13,875	261,047	1,775,656
Fiscal	825,960	9,280	77,467	912,707
Business	208,600	-	-	208,600
Operations and maintenance	426,728	6,885	64,470	498,083
Pupil transportation	104,023	-	-	104,023
Central	1,058,756	-	16,775	1,075,531
Operation of non-instructional services:				
Other non-instructional services	254,087	-	2,736	256,823
Food service operations	-	-	27,119	27,119
Intergovernmental	-	450,000	-	450,000
Extracurricular activities	3,472	-	1,768	5,240
Capital outlay	31,516	-	-	31,516
Debt service:				
Principal retirement	27,770	-	145,000	172,770
Interest and fiscal charges	3,515	-	98,031	101,546
Total expenditures	<u>16,783,568</u>	<u>674,594</u>	<u>2,027,115</u>	<u>19,485,277</u>
Excess (deficiency) of revenues over (under) expenditures	<u>134,055</u>	<u>(480,847)</u>	<u>(229,545)</u>	<u>(576,337)</u>
Other financing sources (uses):				
Loan Proceeds	-	450,000	-	450,000
Transfers in	-	-	245,814	245,814
Transfers (out)	(245,814)	-	-	(245,814)
Capital lease transaction	31,516	-	-	31,516
Total other financing sources (uses)	<u>(214,298)</u>	<u>450,000</u>	<u>245,814</u>	<u>481,516</u>
Net change in fund balances	(80,243)	(30,847)	16,269	(94,821)
Fund balances (deficit)				
at beginning of year (restated)	(1,178,502)	17,787	26,475	(1,134,240)
Fund balances (deficit) at end of year	<u>\$ (1,258,745)</u>	<u>\$ (13,060)</u>	<u>\$ 42,744</u>	<u>\$ (1,229,061)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds \$ (94,821)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$ 124,511	
Current year depreciation	(162,157)	
Total		(37,646)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. (3,130)

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

Contract services	(77,857)	
Other local revenues	17,022	
Intergovernmental	507,608	
Total		446,773

Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of position. Principal payments during the year were:

Notes	145,000	
Capital leases	27,770	
Total		172,770

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities:

Decrease in accrued interest payable		667
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Issuances of loans and capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.

Loans	(450,000)	
Capital leases	(31,516)	
Total		(481,516)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 1,691,092

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (1,942,427)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (6,327)

Change in net position of governmental activities \$ (254,565)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,067	\$ 1,962,427
Receivables:		
Accounts	-	72,142
Intergovernmental.	-	4,255
Prepayments	-	4,096
Total assets.	\$ 1,067	\$ 2,042,920
Liabilities:		
Accounts payable.	-	\$ 2,275
Intergovernmental payable	-	2,040,645
Total liabilities	-	\$ 2,042,920
Net position:		
Held in trust for scholarships	1,067	
Total net position.	\$ 1,067	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Net position at beginning of year.	\$ 1,067
Net position at end of year	<u>\$ 1,067</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the ESC) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is organized under Section 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (9 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Sandusky, Seneca, Union and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agent for the Seneca County Family and Children First Council (the "Council") with the rights and responsibilities established by Section 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 170 noncertified employees and 172 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among forty-one area school districts and ESC's. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and ESC's. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating ESC and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Matt Bauer, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

North Central Ohio Regional Council of Governments (NCORcog)

NCORcog is a legally separate body politic and corporate served by an eight-member Board of Directors that meets the definition of regional Council of governments under Chapter 167 of the Ohio Revised Code. NCORcog is a regional source for shared services. Cost savings achieved are designed to not only maintain existing essential services, but to enhance them as well.

The initial founding members and Board of Directors are North Central Ohio ESC, Seneca County, the City of Tiffin, Clinton Township, Village of New Riegel, North Central Academy, Tiffin City School District, and Seneca East Local School District. The Superintendent of North Central Ohio ESC serves as Chair of the Board. The Chair is a non-voting member and shall only vote in the event of a tie. The Treasurer of North Central Ohio ESC serves as ex-officio/advisor for fiscal matters and is also a non-voting member. Membership is voluntary pursuant to resolution, ordinance or other appropriate action. Application of membership shall be subject to approval by the Board of Directors. Each political subdivision shall be entitled to one vote.

North Central Ohio ESC serves as the fiscal agent. NCORcog issues a publicly available, stand-alone financial report. The report may be obtained by writing to the Treasurer of the North Central Ohio ESC, 928 W. Market Street, Tiffin, Ohio 44883.

North Central Ohio Trust Regional Council of Governments (NCOT)

NCOT is a legally separate body politic and corporate organized as a regional Council of governments under Chapter 167 of the Ohio Revised Code. NCOT is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the NCOT. All NCOT revenues are generated from charges for services. NCOT was formed for the purpose of providing and administering health insurance benefits for member governments.

In the case of NCOT, the ESC serves as fiscal agent and custodian but is not accountable; therefore, the operations of NCOT has been excluded from the ESC's financial statements, but the funds held on behalf of NCOT are included in an agency fund.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, three school districts - Old Fort, Seneca East and Mohawk and one city school, Tiffin. The

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts and the ESC. The ESC acts as fiscal agent to the Association, but the Association's financial statements are not reported with the ESC's financial statements.

As fiscal agent, the ESC reports the Association's financial assets and liabilities for fiscal year 2017 in the basic financial statements as an agency fund. To obtain financial information, write Tina Peyton, Treasurer, North Central Ohio Educational Service Center, 928 West Market Street, Suite A, Tiffin, Ohio 44883.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Miscellaneous State Grants Fund - This fund is used to account for various monies received from state agencies which are not classified elsewhere.

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes.

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust

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agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the ESC are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be

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collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the ESC, available means expected to be received within thirty days of fiscal year end.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the ESC, see Note 12 for deferred outflows of resources related to the ESC's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the ESC, deferred inflows of resources include unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the ESC unavailable revenue includes, but is not limited to, intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the ESC, see Note 12 for deferred inflows of resources related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Unearned Revenue - Revenues received during fiscal year 2017 resulting from exchange transactions for which the ESC has yet to provide the requisite services as of June 30, 2017 have been recorded as unearned revenue on both the government-wide and fund financial statements.

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

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

E. Budgets

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes

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entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

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

F. Cash and Investments

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

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

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the General Fund and the Private-Purpose Trust Funds. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$7,468, which includes \$2,791 assigned from other funds.

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

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

G. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are valued at acquisition cost. The ESC maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The ESC does not possess infrastructure.

All reported 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:

Description	Governmental Activities <u>Estimated Lives</u>
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years
Software	5 years

H. Interfund Balances

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

On the fund financials, other receivables related to interfund activity are classified as "due to/due from other funds". These amounts are eliminated in the governmental activities column of the statement of net position.

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2017, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

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The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2017 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the ESC’s Governing Board, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental

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funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

L. Net Position

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

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

M. Prepayments

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

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

N. Estimates

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

O. Interfund Activity

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

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P. Pensions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type occurred during fiscal year 2017.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the ESC has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the ESC.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the ESC.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the ESC.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the ESC.

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B. Deficit Fund Balances

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

<u>Major funds</u>	<u>Deficit</u>
General	\$ 1,258,745
Miscellaneous State Grants	13,060
<u>Nonmajor funds</u>	
IDEA Part-B	5,608
IDEA Preschool Grant for the Handicapped	699
Education Foundation Fund	19
Public School Preschool	16

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

C. Fund Balance Restatement/Restatement of Net Position

The ESC is reporting a restatement to properly report a fund balance that was previously included in the Miscellaneous State Grants Fund that should have been reported as part of an Agency Fund as those funds were held and being used for the Family Children First Council. This fund restatement had the following effect on the ESC's governmental fund balances as previously reported:

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance (deficit) as previously reported	\$ (1,178,502)	\$ (3,318)	\$ 26,475	\$ (1,155,345)
Fund restatement:				
Properly report amounts as an agency fund	-	21,105	-	21,105
Total fund restatement	-	21,105	-	21,105
Restated fund balance at July 1	<u>\$ (1,178,502)</u>	<u>\$ 17,787</u>	<u>\$ 26,475</u>	<u>\$ (1,134,240)</u>

This restatement had the following effect on net position:

	<u>Governmental Activities</u>
Net position (deficit) as previously reported	\$ (33,486,674)
Fund restatement	21,105
Restated net position (deficit) at July 1	<u>\$ (33,465,569)</u>

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NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At fiscal year end, the ESC had \$100 in undeposited cash on hand which is included on the financial statements of the ESC as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all ESC deposits was \$2,371,625. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$2,043,948 of the ESC's bank balance of \$2,543,948 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

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

C. Investments

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

<u>Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 698,414	\$ 698,414

Interest Rate Risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

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Credit Risk is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard and Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The ESC's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

<u>Investment type</u>	Measurement <u>Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 698,414</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,371,625
Investments	698,414
Cash on hand	<u>100</u>
Total	<u>\$ 3,070,139</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,106,645
Private-purpose trust funds	1,067
Agency funds	<u>1,962,427</u>
Total	<u>\$ 3,070,139</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	
General Fund	<u>\$ 245,814</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-

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wide financial statements. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

B. Due to/from other funds consisted of the following at June 30, 2017, as reported on the fund statement:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	<u>\$ 1,652</u>

The primary purpose of the amount due to the General Fund from the nonmajor governmental fund was to eliminate negative cash balances. The amount will be repaid once cash is received.

Amounts due to/from between governmental funds are eliminated on the government-wide statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2017 consisted of accounts and intergovernmental receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds except as noted. The intergovernmental receivables reported on the statement of net position follows.

Governmental activities:	
Accounts	\$ 30,339
Intergovernmental:	
State and federal grants	165,166
State foundation adjustments	5,534
Food service reimbursement	2,887
LGIF receivable	450,000
Contract services receivable	679,963
Less: allowance for uncollectibles	<u>(451,967)</u>
Net intergovernmental receivable	<u>851,583</u>
Total governmental activities	<u>\$ 881,922</u>

The allowance for uncollectibles includes \$451,967 that will not be received by the ESC due to the closing of multiple community schools.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

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	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 148,850	\$ -	\$ -	\$ 148,850
Total capital assets, not being depreciated	<u>148,850</u>	<u>-</u>	<u>-</u>	<u>148,850</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	3,752,978	21,872	-	3,774,850
Furniture and equipment	1,091,472	102,639	(3,913)	1,190,198
Vehicles	55,064	-	-	55,064
Software	54,631	-	-	54,631
Total capital assets, being depreciated	<u>4,954,145</u>	<u>124,511</u>	<u>(3,913)</u>	<u>5,074,743</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(394,519)	(77,784)	-	(472,303)
Furniture and equipment	(936,739)	(65,647)	783	(1,001,603)
Vehicles	(3,675)	(18,726)	-	(22,401)
Software	(54,631)	-	-	(54,631)
Total accumulated depreciation	<u>(1,389,564)</u>	<u>(162,157)</u>	<u>783</u>	<u>(1,550,938)</u>
Governmental activities capital assets, net	<u>\$ 3,713,431</u>	<u>\$ (37,646)</u>	<u>\$ (3,130)</u>	<u>\$ 3,672,655</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 82,981
Special	1,060
Other	28,870
 <u>Support services:</u>	
Pupil	950
Instructional staff	6,030
Board of education	1,326
Administration	4,743
Fiscal	148
Operations and maintenance	6,802
Pupil transportation	5,452
Central	<u>23,795</u>
Total depreciation expense	<u>\$ 162,157</u>

NOTE 8 - CAPITALIZED LEASE - LESSEE DISCLOSURE

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

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Capital assets consisting of vehicles and computer equipment have been capitalized in the amount of \$86,580 on the statement of net position. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2017 was \$28,704 leaving a current book value of \$57,876. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2017 totaled \$27,770 paid by the General Fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 29,627
2019	<u>11,381</u>
Total minimum lease payments	41,008
Less: amount representing interest	<u>(1,947)</u>
Total	<u>\$ 39,061</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2017, the following changes occurred in governmental activities long-term obligations.

	Balance Outstanding <u>06/30/16</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/17</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Promissory Note - 3.14%	\$ 3,000,000	\$ -	\$ (145,000)	\$ 2,855,000	\$ 145,000
LGIF Loan Payable	-	450,000	-	450,000	-
Compensated absences payable	704,795	130,590	(79,375)	756,010	122,461
Net pension liability	29,935,381	7,894,995	-	37,830,376	-
Capital lease obligations	<u>35,315</u>	<u>31,516</u>	<u>(27,770)</u>	<u>39,061</u>	<u>28,011</u>
Total long-term obligations, governmental activities	<u>\$ 33,675,491</u>	<u>\$ 8,507,101</u>	<u>\$ (252,145)</u>	<u>\$ 41,930,447</u>	<u>\$ 295,472</u>

On June 8, 2011, the ESC entered into a promissory note to provide financing for the acquisition of an administrative and educational services building. During 2017, the ESC received an adjustment to their future interest rates to decrease the rate from 3.55% to 3.14%. The note bears an interest rate of 3.14% and matures on December 1, 2031.

During fiscal year 2017, the ESC received a loan from the Local Government Initiative Fund (LGIF) from the State of Ohio related to the construction of the Joint Justice Center between Seneca County and the City of Tiffin. The ESC is responsible for paying back the loan and has entered into a Memorandum of Understanding (MOU) with Seneca County to repay 100% of the loan. The loan is a 0% interest loan and will be for a total of \$500,000 with the additional principal being received in fiscal year 2018. Seneca County will pay the entire principal balance in equal quarterly installments to the ESC, which will then pass through the payments to the State of Ohio. Repayment is anticipated to being in 2019. Due to the loan not being finalized, there is no amortization schedule and it is not included below.

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Compensated absences will ultimately be paid from the fund from which the employee is paid, which is primarily the General Fund.

See Note 12 for detail on the net pension liability.

See Note 8 for capital lease obligations.

The following is a summary of the ESC's future debt service requirements to maturity for the promissory note:

Fiscal Year Ended	Promissory Note		
	Principal	Interest	Total
2018	\$ 145,000	\$ 87,371	\$ 232,371
2019	155,000	82,661	237,661
2020	160,000	77,715	237,715
2021	165,000	72,612	237,612
2022	170,000	67,353	237,353
2023 - 2027	940,000	251,671	1,191,671
2028 - 2032	1,120,000	90,275	1,210,275
Total	<u>\$ 2,855,000</u>	<u>\$ 729,658</u>	<u>\$ 3,584,658</u>

NOTE 10 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.

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6. The individual must sign for his/her severance check certifying that all eligibility criteria are met.
7. In order to receive severance pay, classified and certified staff shall have provided written notification of his/her intention to retire 90 days prior to the anticipated retirement date. Administrative staff is required to provide written notification by April 1st of the retirement year.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued, but unused sick leave will be multiplied by one-fourth.
2. The product will be multiplied by the per diem rate of pay at the time of retirement.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued, but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned, but unused vacation leave for the current year.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Ohio Joint Self-Insurance Association (the Association). This organization is a public entity risk pool (See Note 2.A.). The Association was established pursuant to Ohio Revised Code Section 9.833 in order to provide health care benefits.

Each member school ESC and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

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C. Workers' Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts ESCs pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and ESCs is calculated as one experience and a common premium rate is applied to all school district and ESCs in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and ESCs that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

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 already have occurred.

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

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

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

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

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Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The ESC’s contractually required contribution to SERS was \$635,384 for fiscal year 2017. Of this amount, \$87,133 is reported as due to pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – ESC licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS,

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275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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

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

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

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

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

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

The ESC's contractually required contribution to STRS was \$1,055,708 for fiscal year 2017. Of this amount, \$87,133 is reported as pension and postemployment benefits payable.

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

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The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.12759130%	0.08197285%	
Proportion of the net pension liability current measurement date	<u>0.13048660%</u>	<u>0.08448585%</u>	
Change in proportionate share	<u>0.00289530%</u>	<u>0.00251300%</u>	
Proportionate share of the net pension liability	\$ 9,550,415	\$ 28,279,961	\$ 37,830,376
Pension expense	\$ 627,898	\$ 1,314,529	\$ 1,942,427

At June 30, 2017, the ESC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 128,814	\$ 1,142,647	\$ 1,271,461
Net difference between projected and actual earnings on pension plan investments	787,770	2,347,997	3,135,767
Changes of assumptions	637,542	-	637,542
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	121,590	568,862	690,452
ESC contributions subsequent to the measurement date	<u>635,384</u>	<u>1,055,708</u>	<u>1,691,092</u>
Total deferred outflows of resources	<u>\$ 2,311,100</u>	<u>\$ 5,115,214</u>	<u>\$ 7,426,314</u>
Deferred inflows of resources			
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	<u>\$ 588,731</u>	<u>\$ 1,727,413</u>	<u>\$ 2,316,144</u>
Total deferred inflows of resources	<u>\$ 588,731</u>	<u>\$ 1,727,413</u>	<u>\$ 2,316,144</u>

\$1,691,092 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$ 157,201	\$ 119,085	\$ 276,286
2019	156,635	119,087	275,722
2020	546,699	1,020,076	1,566,775
2021	226,450	1,073,845	1,300,295
Total	\$ 1,086,985	\$ 2,332,093	\$ 3,419,078

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) discount

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rate was reduced from 7.75% to 7.50%, (b) the assumed rate of inflation was reduced from 3.25% to 3.00%, (c) payroll growth assumption was reduced from 4.00% to 3.50%, (d) assumed real wage growth was reduced from 0.75% to 0.50%, (e) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (f) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (g) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (h) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

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(Continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	\$ 12,644,154	\$ 9,550,415	\$ 6,960,827

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan

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FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 37,581,770	\$ 28,279,961	\$ 20,433,336

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

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(Continued)

Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution 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 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the ESC's surcharge obligation was \$74,770.

The ESC's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$74,770, \$64,151, and \$104,079, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The ESC's did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 14 - STATE FUNDING

State Per-Pupil Funding - This funding materializes in the form of a per-pupil amount applied to the student count extracted from the latest Report Card. For the purposes of this funding, the law distinguishes the 'High Performing' ESCs pursuant to Rule 3301-105-01 of the Administrative Code from the other ESCs and applies two per-pupil amounts to their state funding based on that distinction. High Performing ESCs are granted a per-pupil amount of \$27.00 while other ESCs' state funding is based on the per-pupil amount of \$25.00.

The law provides for \$41,600,000 in fiscal year 2017 to be set aside from the Foundation Funding (line item 200-550) for this purpose. As the appropriation for this funding is set and the funding is based on a constant per-pupil amount, it is often necessary and authorized by law for the fund distribution to be prorated in order to stay within the appropriations. Obviously as the data changes during the course of a fiscal year, so does the proration rate to maintain the appropriated levels.

Local Per-Pupil Funding - ORC Section 3313.843(H) provides that pursuant to provisions of ORC Section 3317.023 the Ohio Department of Education annually shall deduct from each school district that enters into an agreement with an ESC under this section, a per-pupil amount of \$6.50 or an alternative amount in excess of \$6.50 if agreed upon by both the ESC and the client districts to be paid to the ESC. The per-pupil amount is multiplied by the school age students count of the client district as reported on the latest Report Card.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 15 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

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

C. Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the ESCs. These reviews are conducted to ensure the ESCs are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the ESC; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the ESC.

NOTE 16 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General Fund	\$ 118,758
Miscellaneous State Grants Fund	1,763
Other Governmental	<u>64,305</u>
Total	<u>\$ 184,826</u>

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ESC's proportion of the net pension liability	0.13048660%	0.12759130%	0.15014700%	0.15014700%
ESC's proportionate share of the net pension liability	\$ 9,550,415	\$ 7,280,483	\$ 7,598,854	\$ 8,928,760
ESC's covered payroll	\$ 4,040,064	\$ 3,841,161	\$ 4,362,973	\$ 4,326,329
ESC's proportionate share of the net pension liability as a percentage of its covered payroll	236.39%	189.54%	174.17%	206.38%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the ESC's measurement date which is the prior year-end.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ESC's proportion of the net pension liability	0.08448585%	0.08197285%	0.09202149%	0.09202149%
ESC's proportionate share of the net pension liability	\$ 28,279,961	\$ 22,654,898	\$ 22,382,811	\$ 26,662,258
ESC's covered payroll	\$ 8,877,171	\$ 8,508,264	\$ 9,402,054	\$ 9,405,869
ESC's proportionate share of the net pension liability as a percentage of its covered payroll	318.57%	266.27%	238.06%	283.46%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the ESC's measurement date which is the prior year-end.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 635,384	\$ 565,609	\$ 506,265	\$ 604,708
Contributions in relation to the contractually required contribution	<u>(635,384)</u>	<u>(565,609)</u>	<u>(506,265)</u>	<u>(604,708)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 4,538,457	\$ 4,040,064	\$ 3,841,161	\$ 4,362,973
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 598,764	\$ 533,396	\$ 476,387	\$ 476,512	\$ 291,490	\$ 203,466
<u>(598,764)</u>	<u>(533,396)</u>	<u>(476,387)</u>	<u>(476,512)</u>	<u>(291,490)</u>	<u>(203,466)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,326,329	\$ 3,965,770	\$ 3,789,873	\$ 3,519,291	\$ 2,962,297	\$ 2,071,955
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,055,708	\$ 1,242,804	\$ 1,191,157	\$ 1,222,267
Contributions in relation to the contractually required contribution	<u>(1,055,708)</u>	<u>(1,242,804)</u>	<u>(1,191,157)</u>	<u>(1,222,267)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 7,540,771	\$ 8,877,171	\$ 8,508,264	\$ 9,402,054
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 1,222,763	\$ 1,097,398	\$ 1,030,252	\$ 988,611	\$ 914,357	\$ 724,074
<u>(1,222,763)</u>	<u>(1,097,398)</u>	<u>(1,030,252)</u>	<u>(988,611)</u>	<u>(914,357)</u>	<u>(724,074)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 9,405,869	\$ 8,441,523	\$ 7,925,015	\$ 7,604,700	\$ 7,033,515	\$ 5,569,800
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) discount rate was reduced from 7.75% to 7.50%, (b) the assumed rate of inflation was reduced from 3.25% to 3.00%, (c) payroll growth assumption was reduced from 4.00% to 3.50%, (d) assumed real wage growth was reduced from 0.75% to 0.50%, (e) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (f) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (g) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (h) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$ 11,292,243	\$ 11,378,007	\$ 11,373,271	\$ (4,736)
Earnings on investments	1,200	7,200	7,468	268
Classroom materials and fees	200	200	45	(155)
Contributions and donations	12,844	16,943	14,995	(1,948)
Contract services	3,945,238	5,093,020	4,857,125	(235,895)
Other local revenues	1,198,360	818,258	685,108	(133,150)
Intergovernmental - state	841,966	844,147	844,147	-
Total revenues	<u>17,292,052</u>	<u>18,157,775</u>	<u>17,782,159</u>	<u>(375,616)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,884,554	1,817,265	1,719,218	98,047
Special	3,697,465	3,773,292	3,593,013	180,279
Vocational	409,091	397,975	352,299	45,676
Other	217,006	238,763	197,500	41,263
Support services:				
Pupil	4,229,600	4,204,654	4,101,402	103,252
Instructional staff	2,117,524	2,265,700	2,149,433	116,267
Board of education	86,452	76,167	72,138	4,029
Administration	1,657,589	1,593,832	1,515,859	77,973
Fiscal	842,496	819,029	918,737	(99,708)
Business	217,967	211,491	206,809	4,682
Operations and maintenance	501,693	497,273	484,015	13,258
Pupil transportation	123,801	126,037	122,540	3,497
Central	844,508	1,400,825	1,100,460	300,365
Operation of non-instructional services:				
Other non-instructional services	295,686	286,296	265,658	20,638
Extracurricular activities	3,635	3,536	3,472	64
Total expenditures	<u>17,129,067</u>	<u>17,712,136</u>	<u>16,802,553</u>	<u>909,583</u>
Excess of revenues over expenditures	<u>162,985</u>	<u>445,639</u>	<u>979,606</u>	<u>533,967</u>
Other financing sources (uses):				
Refund of prior year's expenditures	55,000	55,261	55,261	-
Transfers in	-	-	13,542	13,542
Transfers (out)	(264,630)	(269,122)	(269,122)	-
Total other financing sources (uses)	<u>(209,630)</u>	<u>(213,861)</u>	<u>(200,319)</u>	<u>13,542</u>
Net change in fund balance	(46,645)	231,778	779,287	547,509
Fund balance (deficit) at beginning of year	(84,316)	(84,316)	(84,316)	-
Prior year encumbrances appropriated	139,805	139,805	139,805	-
Fund balance at end of year	<u>\$ 8,844</u>	<u>\$ 287,267</u>	<u>\$ 834,776</u>	<u>\$ 547,509</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS STATE GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - state	\$ 731,009	\$ 237,909	\$ 203,154	\$ (34,755)
Total revenues	<u>731,009</u>	<u>237,909</u>	<u>203,154</u>	<u>(34,755)</u>
Expenditures:				
Instructional staff	202,517	207,468	198,856	8,612
Administration.	14,788	14,406	14,284	122
Fiscal	6,933	9,279	9,280	(1)
Operations and maintenance.	6,900	6,885	6,885	-
Central.	466,956	466,956	-	466,956
Operation of non-instructional services:				
Other non-instructional services	-	-	-	-
Facilities acquisition and construction	<u>1,000,000</u>	<u>500,000</u>	<u>450,000</u>	<u>50,000</u>
Total expenditures	<u>1,698,094</u>	<u>1,204,994</u>	<u>679,305</u>	<u>525,689</u>
Excess of expenditures over revenues	<u>(967,085)</u>	<u>(967,085)</u>	<u>(476,151)</u>	<u>490,934</u>
Other financing sources:				
Loan Proceeds	966,956	966,956	450,000	(516,956)
Total other financing sources	<u>966,956</u>	<u>966,956</u>	<u>450,000</u>	<u>(516,956)</u>
Net change in fund balance	(129)	(129)	(26,151)	(26,022)
Fund balances (deficit)				
at beginning of year (restated)	(23,511)	(23,511)	(23,511)	-
Prior year encumbrances appropriated	23,641	23,641	23,641	-
Fund balance (deficit) at end of year	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (26,021)</u>	<u>\$ (26,022)</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

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

While reporting financial position and changes in financial position/fund balance 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 and disbursements plus encumbrances.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the General Fund and Miscellaneous State Grants Fund are as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Miscellaneous State Grants Fund</u>
Budget basis	\$ 779,287	\$ (26,151)
Net adjustment for revenue accruals	(881,536)	(9,407)
Net adjustment for expenditure accruals	(140,564)	(21,448)
Net adjustment for other sources/uses	(23,745)	-
Funds budgeted elsewhere	(24,402)	-
Adjustment for encumbrances	<u>210,717</u>	<u>26,159</u>
GAAP basis	<u>\$ (80,243)</u>	<u>\$ (30,847)</u>

Certain funds that are budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. This includes the Public School Support Fund and the Termination Benefits Fund.

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Total Federal Receipts	Total Federal Expenditures
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<u>Nutrition Cluster:</u>			
National School Breakfast Program	10.553	\$ 2,210	\$ 2,210
National School Lunch Program	10.555	22,357	22,357
Total for Nutrition Cluster		<u>24,567</u>	<u>24,567</u>
Total US Department of Agriculture		<u>24,567</u>	<u>24,567</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education Grants to States	84.027	1,226,750	1,219,218
Special Education Preschool Grants	84.173	157,253	158,293
Total Special Education Cluster		<u>1,384,003</u>	<u>1,377,511</u>
Title I Grants To Local Educational Agencies	84.010	56,944	55,595
Improving Teacher Quality State Grants	84.367	7,185	
English Language Acquisition State Grants	84.365	60,019	60,019
Special Education - State Personnel Development	84.323	43,476	43,476
Race to the Top - Early Learning Challenge	84.412	1,886	1,886
<i>Passed Through Ohio Department of Health</i>			
Special Education - Grants for Infants and Families	84.181	57,160	31,091
Total US Department of Education		<u>1,610,673</u>	<u>1,569,578</u>
Total Receipts and Expenditures of Federal Awards		<u>\$ 1,635,240</u>	<u>\$ 1,594,145</u>

The accompanying notes are an integral part of this schedule.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC's) under programs of the federal government for the year ended June 30, 2017. 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 ESC, it is not intended to and does not present the financial position or changes in net position of the ESC.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receipts and Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following 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 ESC has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The ESC transferred the following amounts from 2017 to 2018 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$26
English Language Acquisition State Grants	84.365	23,864

The ESC transferred the following amounts from 2016 to 2017 programs:

Special Education - Grants to States	84.027	\$327
Special Education - State Personnel Development	84.323	23,793
English Language Acquisition State Grants	84.365	36,398



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

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 22, 2018, wherein we noted the ESC restated the beginning balance of Governmental Activities and the Miscellaneous State Grants fund to properly report a portion of the fund balance in the proper fund type.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the ESC'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 ESC's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government'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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the ESC'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*.

ESC's Response to Findings

The ESC's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the ESC's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

March 22, 2018



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

North Central Ohio Educational Service Center
Seneca County
928 West Market Street
Tiffin, Ohio 44883-2529

To the Board of Governors:

Report on Compliance for each Major Federal Program

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

Management's Responsibility

The ESC'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 ESC's compliance for the ESC's major federal program 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 ESC'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 the ESC's major program. However, our audit does not provide a legal determination of the ESC's compliance.

Opinion on the Major Federal Program

In our opinion, North Central Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The ESC'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 ESC'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 ESC's internal control over compliance.

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

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

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



Dave Yost
Auditor of State

Columbus, Ohio

March 22, 2018

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2017-001

Material Weakness

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and

demonstrate compliance with finance-related legal and contractual provisions. Errors were noted in the financial statements resulting in the following audit adjustments:

- The beginning balance of \$21,105, intergovernmental revenue of \$117,638 and operation of non-instructional services expenditures of \$99,017 were incorrectly recorded in the Miscellaneous State Grant Fund and Governmental Activities when they should have been reported as part of an Agency fund as those funds were held and being used for the Family and Children First Council.
- Budgeted expenditures of \$131,656 were incorrectly recorded in the Miscellaneous State Grants Fund due to prior year carryover encumbrances being included twice in the budget versus actual statement in the amount of \$24,435 and budgeted expenditures of \$107,221 that were for Agency Fund activity as those funds were held and being used for the Family and Children First Council.
- Intergovernmental expenditures and deferred inflows of resources related to intergovernmental revenue not available of \$450,000 were not recorded in the Miscellaneous State Grants Fund related to the payment of \$450,000 to Seneca County from the ESC. The ESC received a loan from the Local Government Initiative Fund from the State of Ohio related to the construction of the Joint Justice Center between Seneca County and the City of Tiffin. The ESC is responsible for paying back the loan and has entered into a Memorandum of Understanding with Seneca County to repay 100% of the loan. The loan is a 0% interest loan and will total \$500,000 with the additional principal being received in fiscal year 2018. Seneca County will pay the entire principal balance in equal quarterly installments to the ESC, which will then pass through the payments to the State of Ohio. Repayment is anticipated to begin in 2019. From this, the \$450,000 intergovernmental receivable recorded in the Miscellaneous State Grants Fund is not available for the year ended June 30, 2017.

These errors were the result of inadequate policies and procedures in reviewing the financial statements. Failure to complete accurate financial statements could lead to the Board making misinformed decisions. The accompanying financial statements, notes to the financial statements, and accounting records have been adjusted to correct these errors.

Additional immaterial errors were noted that were below performance materiality and were included on the Summary of Unadjusted Differences form but not posted to the financial statements.

To help ensure the ESC's financial statements and notes to the statements are complete and accurate, the ESC should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board of Governors to identify and correct errors and omissions.

Officials' Response

The Treasurer does complete a final review of the financial statements and notes prepared by our financial consulting firm prior to the report being filed. We have notified our GAAP consultants of the errors identified by audit in the 2017 statements, and we will take the necessary steps to ensure these issues are addressed properly in future reports.

3. FINDINGS FOR FEDERAL AWARDS

None



Tiffin Campus
 928 W. Market Street - Suite A
 Tiffin, Ohio 44883
 419-447-2927
 419-447-2825 Fax

Mansfield Campus
 State Support Team Region 7
 1495 West Longview Ave. - Suite 200
 Mansfield, Ohio 44906
 419-747-4808

Marion Campus
 333 East Center Street
 Marion, Ohio 43302
 740-387-6625
 740-383-4804 Fax

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The independent accounting firm has been updated, and it will be corrected going forward.	June 30, 2018	Tina Peyton, Treasurer

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NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA 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
MARCH 29, 2018**