

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2014***

MATT BAUER, TREASURER



Dave Yost • Auditor of State

Governing Board
North Point Educational Service Center
1210 E. Bogart Road
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the North Point Educational Service Center, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 3, 2014

This page intentionally left blank.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Fiduciary Net Position - Fiduciary Funds	19
Statement of Changes in Fiduciary Net Position - Investment Trust Fund	20
Notes to the Basic Financial Statements.....	21 - 41
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) General Fund	42
Notes to the Supplementary Information.....	43 - 44
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	45 - 46

This page intentionally left blank.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

North Point Educational Service Center
Erie County
1210 E. Bogart Road
Sandusky, Ohio 44870

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, Ohio, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the North Point Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) - General Fund (the "Schedule") and related notes presents additional analysis and is not a required part of the basic financial statements.

The Schedule and notes 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 Schedule and notes to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule and notes 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 Schedule and notes are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the North Point Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Point Educational Service Center's internal control over financial reporting and compliance.



Julian & Grube, Inc.
November 3, 2014

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The management's discussion and analysis of the North Point 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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities increased \$1,679,521, which represents a 34.91% increase from net position at June 30, 2013.
- General revenues accounted for \$1,184,835 in revenue or 5.66% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$19,736,967 or 94.34% of total revenues of \$20,921,802.
- The ESC had \$19,242,281 in expenses related to governmental activities; All of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,184,835 were to help provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$18,842,557 in revenues and \$18,281,079 in expenditures. During fiscal year 2014, the general fund's fund balance increased \$561,478 from \$5,777,810 to a balance of \$6,339,288.

Using the 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 may understand the ESC as a financial whole, an entire operating entity. The statements 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 look at the ESC's most significant funds with all other, nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund and is the only governmental fund reported as a major fund.

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 the ESC perform financially during 2014?" The statement of net position and statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

The ESC's statement of net position and statement of activities can be found on pages 13 and 14 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. 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 only major governmental fund is the general fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the Northern Ohio Educational Computer Association ("NOECA"), a computer consortium, and the Huron-Erie School Employees Insurance Association. NOECA is presented as an investment trust fund. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary net position on page 19. The investment trust fund's activities for fiscal 2014 are also reported in a separate statement of changes in fiduciary net position on page 20. These activities are excluded from the ESC's other financial statements because these resources 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. The notes to the basic financial statements can be found on pages 21 through 41 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 42-44.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The ESC as a Whole

The table below provides a summary of the ESC's net position for fiscal years 2014 and 2013.

	Net Position	
	Governmental Activities 2014	Governmental Activities 2013
<u>Assets</u>		
Current and other assets	\$ 8,962,079	\$ 8,302,749
Capital assets, net	<u>1,043,695</u>	<u>140,730</u>
Total assets	<u>10,005,774</u>	<u>8,443,479</u>
<u>Liabilities</u>		
Current liabilities	2,204,627	2,352,381
Long-term liabilities	<u>1,310,248</u>	<u>1,279,720</u>
Total liabilities	<u>3,514,875</u>	<u>3,632,101</u>
<u>Net Position</u>		
Investment in capital assets	1,043,695	140,730
Restricted	47,948	59,195
Unrestricted	<u>5,399,256</u>	<u>4,611,453</u>
Total net position	<u>\$ 6,490,899</u>	<u>\$ 4,811,378</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the ESC's assets exceeded liabilities by \$6,490,899. Of this total, \$47,948 is restricted in use.

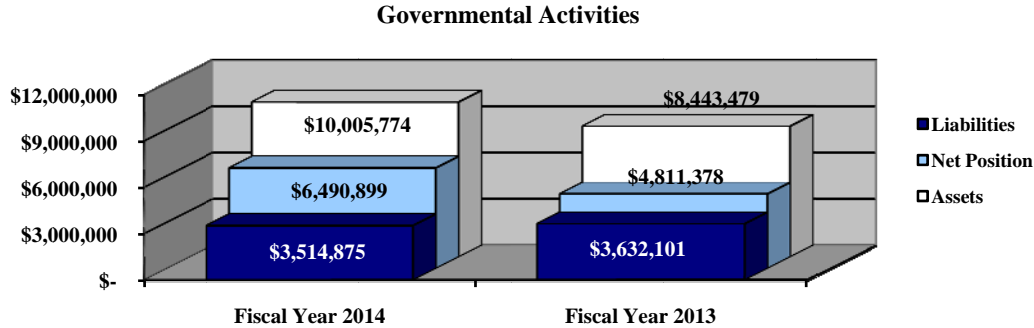
At year-end, capital assets represented 10.43% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. The ESC's investment in capital assets at June 30, 2014, was \$1,043,695. These capital assets are used to provide the ESC's services, thus net position invested in capital assets equal to the carrying value of assets is not available for future spending.

A portion of the ESC's net position, \$47,948, represents resources that are subject to external restriction on how these resources may be used. The remaining balance of unrestricted net position of \$5,399,256 may be used to meet the ESC's ongoing obligations to the students and creditors.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The graph that follows illustrates the governmental activities assets, liabilities and net position at June 30, 2014 and 2013.



Governmental Activities

Net position of the ESC's governmental activities increased \$1,679,521 due primarily to higher tuition revenues received through the state foundation program and school districts for the ESC's services and the donation of land and a building. Total governmental expenses of \$19,242,281 were offset by program revenues of \$19,736,967 and general revenues of \$1,184,835. Program revenues supported 100% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from sales and charges for services provided to other entities. This revenue source represents 85.58% of total governmental revenue.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The table below shows the change in net position for fiscal years 2014 and 2013.

	Governmental Activities 2014	Governmental Activities 2013
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 17,905,493	\$ 17,741,784
Operating grants and contributions	840,704	714,842
Capital grants and contributions	990,770	-
General revenues:		
Grants and entitlements	1,098,850	2,583,721
Investment earnings	14,594	10,797
Miscellaneous	71,391	55,303
Total revenues	<u>20,921,802</u>	<u>21,106,447</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	1,115,517	482,748
Special	7,618,179	5,551,024
Support services:		
Pupil	5,282,648	5,481,397
Instructional staff	3,319,360	6,448,926
Board of education	199,231	258,787
Administration	583,458	850,177
Fiscal	344,201	402,287
Business	47,653	181,682
Operations and maintenance	550,819	546,002
Central	58,449	22,075
Operation of non-instructional services	103,577	100,994
Extracurricular activities	19,189	15,616
Total expenses	<u>19,242,281</u>	<u>20,341,715</u>
Change in net position	1,679,521	764,732
Net position at beginning of year	<u>4,811,378</u>	<u>4,046,646</u>
Net position at end of year	<u>\$ 6,490,899</u>	<u>\$ 4,811,378</u>

Total revenues of the ESC decreased \$184,645 or 0.87%. While the ESC had a large increase in capital grants and contributions due to the donation of the Graytown building and the land associated with that building, the ESC had a large decrease of \$1,484,871 in unrestricted grants and entitlements due to lower funding related to special education early child funding and state per pupil funding from the State foundation.

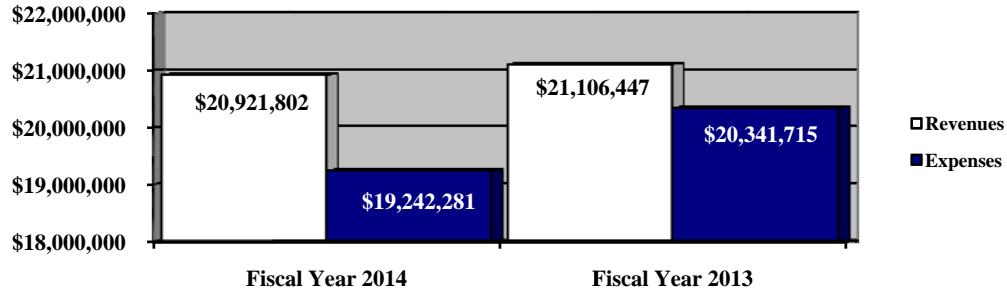
Total expense of the ESC decreased \$1,099,434 or 5.40%. This decrease can mainly be attributed to a decrease of \$3,129,566 in instructional staff expenses in the areas of salaries, fringe benefits and purchased services. This large decrease was partially offset by an increase in the areas of regular and special instruction which increased a total of \$2,699,924 due to increases in the areas of salaries, fringe benefits and purchased services.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2014 and 2013.

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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program expenses				
Instruction:				
Regular	\$ 1,115,517	\$ 144,357	\$ 482,748	\$ 46,059
Special	7,618,179	(708,733)	5,551,024	587,133
Support services:				
Pupil	5,282,648	116,043	5,481,397	586,293
Instructional staff	3,319,360	(157,788)	6,448,926	508,411
Board of education	199,231	(10,125)	258,787	39,663
Administration	583,458	23,266	850,177	44,024
Fiscal	344,201	16,074	402,287	7,068
Business	47,653	300	181,682	22,945
Operations and maintenance	550,819	88,219	546,002	40,415
Central	58,449	(6,997)	22,075	12,247
Operation of non-instructional services	103,577	249	100,994	(4,052)
Extracurricular activities	19,189	449	15,616	(5,117)
Total expenses	<u>\$ 19,242,281</u>	<u>\$ (494,686)</u>	<u>\$ 20,341,715</u>	<u>\$ 1,885,089</u>

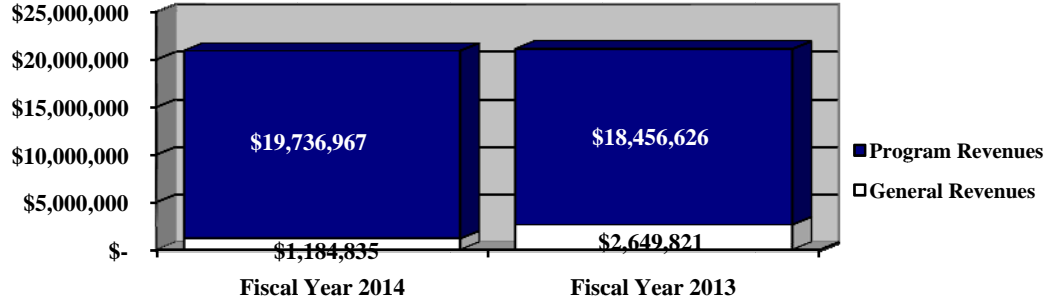
For all governmental activities, program revenue support is 100%. The primary support of the ESC is contracted fees for services provided to other districts.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The graph below presents the ESC's governmental activities revenue for fiscal years 2014 and 2013.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$6,385,393, which is higher than last year's balance of \$5,836,106. The schedule below indicates the fund balances and the total change in fund balance during the fiscal years ended June 30, 2014 and June 30, 2013.

	Fund Balance June 30, 2014	Fund Balance June 30, 2013	Change
General	\$ 6,339,288	\$ 5,777,810	\$ 561,478
Nonmajor governmental	46,105	58,296	(12,191)
Total	\$ 6,385,393	\$ 5,836,106	\$ 549,287

General Fund

The ESC's general fund balance increased by \$561,478. Overall revenues decreased by 7.05%. Services provided to other entities decreased from \$234,367 to \$145,089 or 38.09% for fiscal year 2014. Additionally, the intergovernmental revenue decreased \$1,484,921 or 57.47%. This decrease can mainly be attributed to a decrease in special education early child funding and state per pupil funding from the State foundation.

Expenditures in the general fund decreased \$1,493,968 or 7.55% from fiscal year 2013. Instructional expenditures increased \$2,357,859 or 42.39%. This increase was due primarily to an increase in regular and special instruction expenditures most notably in the areas of salaries, fringe benefits and purchased services. Support service expenditures decreased \$3,859,801 or 27.21%. This decrease was due mainly to a decrease in instructional staff which showed large decreases in the areas of salaries, fringe benefits and purchased services.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

	2014 Amount	2013 Amount	Change	Percentage Change
<u>Revenues</u>				
Tuition	\$ 17,504,573	\$ 17,363,591	\$ 140,982	0.81 %
Services provided to other entities	145,089	234,367	(89,278)	(38.09) %
Earnings on investments	15,854	9,450	6,404	67.77 %
Intergovernmental	1,098,800	2,583,721	(1,484,921)	(57.47) %
Other revenues	<u>78,241</u>	<u>81,132</u>	<u>(2,891)</u>	(3.56) %
Total	<u>\$ 18,842,557</u>	<u>\$ 20,272,261</u>	<u>\$ (1,429,704)</u>	(7.05) %
<u>Expenditures</u>				
Instruction	\$ 7,920,402	\$ 5,562,543	\$ 2,357,859	42.39 %
Support services	10,324,722	14,184,523	(3,859,801)	(27.21) %
Operation on non-instructional services	16,766	12,365	4,401	35.59 %
Extracurricular activities	<u>19,189</u>	<u>15,616</u>	<u>3,573</u>	22.88 %
Total	<u>\$ 18,281,079</u>	<u>\$ 19,775,047</u>	<u>\$ (1,493,968)</u>	(7.55) %

Capital Assets

At the end of fiscal year 2014, the ESC had \$1,043,695 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported among the ESC's governmental activities.

The following table shows June 30, 2014 balances compared to June 30, 2013.

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

	Governmental Activities	
	2014	2013
Land	\$ 114,850	\$ -
Buildings	861,321	64,500
Furniture and equipment	43,650	49,385
Vehicles	<u>23,874</u>	<u>26,845</u>
Total	<u>\$ 1,043,695</u>	<u>\$ 140,730</u>

The overall increase in the ESC's capital assets, net of accumulated depreciation, of \$902,965 is attributable to the donation of a building and land to the District.

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

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Long-Term Obligations

The only long-term liabilities for the ESC's governmental activities are for compensated absences. See Note 8 to the basic financial statements for detail.

Current Financial Related Activities

The North Point Educational Service Center relies heavily on contracts with local, city and exempted village school districts in a five-county area, State foundation revenue and grants. Contracts with participating districts are expected to increase in fiscal year 2015 and beyond due to additional service requests from districts. The ESC also looks to expand services, providing fiscal, administrative and other services to entities. Currently some of those entities are the Northern Ohio Educational Computer Association, Bay Area Gas Consortium, North Point Purchasing Cooperative and the Huron-Erie School Employees Insurance Consortium. These new contracts and expanded services along with the ESC's cash balance will provide the necessary funds to meet operating expenses in the future.

One challenge that is being faced by Educational Service Centers is the legislation regarding how districts are "tied" to an ESC. In the most current State Budget the supervisory allowance, gifted funding, and preschool funding have been deleted or altered in some way. These changes have led the ESC to bill differently for these programs. What effect this legislation will have on future State funding and on ESC financial operations is uncertain at this time. Uncertainty with the State biennial budget and future budget cuts are also a concern.

Another challenge facing the North Point Educational Service Center is the declining enrollment in the north central Ohio area over the past several years, and the projected decline in the future. State foundation funding is based on the ADM of the school districts in the counties, so the continued decline will directly impact State funding. A decline in State Funding over fiscal year 2013 and fiscal year 2014 may increase costs to participating districts.

Contacting the ESC's Financial Management

This financial report is designed to provide local school districts, citizens, creditors, and other interested parties with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matt Bauer, Treasurer, North Point ESC, 1210 E. Bogart Road, Sandusky, Ohio or by calling (419) 625-6274.

THIS PAGE IS INTENTIONALLY LEFT BLANK.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments.	\$ 7,779,004
Receivables:	
Accounts	13,282
Accrued interest.	5,189
Intergovernmental.	1,132,656
Prepayments.	31,948
Capital assets:	
Nondepreciable capital assets	114,850
Depreciable capital assets, net.	928,845
Capital assets, net	<u>1,043,695</u>
Total assets	<u>10,005,774</u>
Liabilities:	
Accounts payable.	15,074
Accrued wages and benefits payable	1,779,786
Pension obligation payable	310,342
Intergovernmental payable	97,505
Unearned revenue	1,920
Long-term liabilities:	
Due within one year.	245,172
Due in more than one year	1,065,076
Total liabilities	<u>3,514,875</u>
Net position:	
Investment in capital assets.	1,043,695
Restricted for:	
Permanent fund - nonexpendable	2,645
Locally funded programs	43,272
State funded programs.	2,031
Unrestricted.	5,399,256
Total net position.	<u>\$ 6,490,899</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction:					
Regular	\$ 1,115,517	\$ 623,175	\$ 347,985	\$ -	\$ (144,357)
Special	7,618,179	7,042,586	293,556	990,770	708,733
Support services:					
Pupil	5,282,648	5,166,444	161	-	(116,043)
Instructional staff	3,319,360	3,409,020	68,128	-	157,788
Board of education	199,231	209,356	-	-	10,125
Administration	583,458	551,187	9,005	-	(23,266)
Fiscal	344,201	303,446	24,681	-	(16,074)
Business	47,653	47,353	-	-	(300)
Operations and maintenance	550,819	462,600	-	-	(88,219)
Central	58,449	65,446	-	-	6,997
Operation of non-instructional services	103,577	11,688	91,640	-	(249)
Extracurricular activities	19,189	13,192	5,548	-	(449)
Total governmental activities	<u>\$ 19,242,281</u>	<u>\$ 17,905,493</u>	<u>\$ 840,704</u>	<u>\$ 990,770</u>	<u>494,686</u>
General revenues:					
Grants and entitlements not restricted to specific programs					1,098,850
Investment earnings					14,594
Miscellaneous					71,391
Total general revenues					<u>1,184,835</u>
Change in net position					1,679,521
Net position at beginning of year					<u>4,811,378</u>
Net position at end of year					<u>\$ 6,490,899</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 7,715,812	\$ 63,192	\$ 7,779,004
Receivables:			
Accounts	13,282	-	13,282
Accrued interest.	5,189	-	5,189
Intergovernmental.	1,131,079	1,577	1,132,656
Prepayments.	31,948	-	31,948
Total assets	<u>\$ 8,897,310</u>	<u>\$ 64,769</u>	<u>\$ 8,962,079</u>
Liabilities:			
Accounts payable	\$ 15,074	\$ -	\$ 15,074
Accrued wages and benefits payable	1,765,838	13,948	1,779,786
Compensated absences payable	73,642	-	73,642
Intergovernmental payable	96,913	592	97,505
Unearned revenue.	1,920	-	1,920
Pension obligation payable	307,795	2,547	310,342
Total liabilities	<u>2,261,182</u>	<u>17,087</u>	<u>2,278,269</u>
Deferred inflows of resources:			
Tuition revenue not available	281,628	-	281,628
Revenue not available from services provided to other entities.	2,800	-	2,800
Accrued interest not available.	2,948	-	2,948
Other nonexchange transactions not available.	50	-	50
Intergovernmental revenue not available	-	1,577	1,577
Miscellaneous revenue not available	9,414	-	9,414
Total deferred inflows of resources	<u>296,840</u>	<u>1,577</u>	<u>298,417</u>
Fund balances:			
Nonspendable:			
Prepayments	31,948	-	31,948
Permanent fund	-	2,645	2,645
Restricted:			
Locally funded programs.	-	43,726	43,726
Assigned:			
Student instruction.	18,801	-	18,801
Student and staff support	160,772	-	160,772
Other purposes.	71,979	-	71,979
Unassigned (deficit).	6,055,788	(266)	6,055,522
Total fund balances	<u>6,339,288</u>	<u>46,105</u>	<u>6,385,393</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,897,310</u>	<u>\$ 64,769</u>	<u>\$ 8,962,079</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total governmental fund balances		\$ 6,385,393
<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.		1,043,695
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds		
Accounts receivable	\$ 293,842	
Accrued interest receivable	2,948	
Intergovernmental receivable	1,627	
Total	<u>298,417</u>	298,417
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.		<u>(1,236,606)</u>
Net position of governmental activities		<u><u>\$ 6,490,899</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 17,504,573	\$ -	\$ 17,504,573
Services provided to other entities.	145,089	67,050	212,139
Earnings on investments.	15,854	-	15,854
Extracurricular.	2,595	-	2,595
Rental income	2,850	-	2,850
Contributions and donations.	10,654	-	10,654
Other local revenues.	62,142	-	62,142
Intergovernmental - intermediate.	-	6,061	6,061
Intergovernmental - state.	1,094,011	624,424	1,718,435
Intergovernmental - federal	4,789	198,888	203,677
Total revenues	<u>18,842,557</u>	<u>896,423</u>	<u>19,738,980</u>
Expenditures:			
Current:			
Instruction:			
Regular.	629,261	420,505	1,049,766
Special	7,291,141	296,783	7,587,924
Support services:			
Pupil	5,257,291	2,283	5,259,574
Instructional staff.	3,333,881	67,947	3,401,828
Board of education	199,231	-	199,231
Administration	561,988	9,681	571,669
Fiscal	321,352	24,604	345,956
Business	45,413	-	45,413
Operations and maintenance	547,117	-	547,117
Central	58,449	-	58,449
Operation of non-instructional services	16,766	86,811	103,577
Extracurricular activities.	19,189	-	19,189
Total expenditures	<u>18,281,079</u>	<u>908,614</u>	<u>19,189,693</u>
Net change in fund balances	561,478	(12,191)	549,287
Fund balances at beginning of year	<u>5,777,810</u>	<u>58,296</u>	<u>5,836,106</u>
Fund balances at end of year	<u>\$ 6,339,288</u>	<u>\$ 46,105</u>	<u>\$ 6,385,393</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds	\$	549,287
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 6,078	
Current year depreciation	<u>(30,733)</u>	
Total		(24,655)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to increase net position. The ESC received \$990,770 in capital contributions and had (\$63,150) in disposals, net of accumulated depreciation.		
		927,620
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Services provided to other entities	(3,526)	
Tuition	186,862	
Earnings on investments	(1,260)	
Intergovernmental	952	
Miscellaneous	<u>9,024</u>	
Total		192,052
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 the governmental funds.		
		<u>35,217</u>
Change in net position of governmental activities	\$	<u>1,679,521</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Investment Trust	Agency
Assets:		
Equity in pooled cash and investments	\$ 1,742,730	\$ 9,211,905
Receivables:		
Accounts	-	72,044
Accrued interest	-	32,998
Prepayments	-	11,312
Total assets.	1,742,730	\$ 9,328,259
Liabilities:		
Accounts payable.	-	\$ 75,514
Unearned revenue	-	205,065
Deposits held and due to others	-	5,176,322
Claims payable.	-	3,871,358
Total liabilities.	-	\$ 9,328,259
Net position:		
Available for pool participants.	1,742,730	
Total net position.	\$ 1,742,730	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Investment Trust
Net increase in net position resulting from operations	\$ 3,424
Distributions paid to participants.	(3,424)
Share transactions:	
Purchase of units	2,219,709
Redemption of units.	(2,028,868)
	190,841
Net increase in net position and shares resulting from share transactions.	190,841
Change in net position	190,841
Net position at beginning of year	1,551,889
Net position at end of year	\$ 1,742,730

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - DESCRIPTION OF THE ESC

The North Point Educational Service Center (the “ESC”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The ESC is an Educational Service Center as defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Governing Board of Education (eleven members) and is responsible for the provision of public education to residents of the local school districts that it services.

The ESC is the result of the July 1, 1997, merger of the Erie County Educational Service Center and the Ottawa County Educational Service Center, and the July 1, 1999, merger of the Erie-Ottawa Educational Service Center and the Huron County Educational Service Center, under the authority of the Ohio Revised Code Section 3311.053 and 3311.054 and resolutions made by the Governing Boards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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).

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of numerous school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the ESC is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial activity for fiscal year 2014 is reported in the basic financial statements as an agency fund.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of numerous public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees and a representative from the fiscal agent. The ESC serves as fiscal agent for NOECA. Financial activity for 2014 is reported in the basic financial statements as an investment trust fund. The ESC paid NOECA \$28,540 in fiscal year 2014 its services.

North Point Purchasing Cooperative

The North Point Purchasing Cooperative (the "Cooperative") is composed of 15 school districts in four counties. The purpose of the Cooperative is to obtain competitive prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the Cooperative; currently there are no fees assessed to the members. There are nine Directors elected from the member districts. Any district withdrawing from the Cooperative forfeits its claim to any and all Cooperative assets. Sixty days notice is necessary prior to withdrawal from the group; during this time, the withdrawing member is liable for all member obligations. To obtain further information regarding the Cooperative, contact the North Point Purchasing Cooperative, Matt Bauer, who serves as Administrator, at 2900 Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Ohio Association of School Business Officials 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 Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school district pays an enrollment fee to the Plan to cover the costs of administering the program.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (the "Association") is a public entity risk pool comprised of numerous districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. On January 1, 2006, the ESC became fiscal agent for the Association. Financial activity for fiscal year 2014 is reported in the basic financial statements as an agency fund. This financial activity does not include federal securities and various investments for which the treasurer of the ESC is not the custodian.

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. The ESC does not have any proprietary funds.

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 is the ESC's major governmental fund:

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's trust fund is an investment trust fund which accounts for monies held by the ESC as fiscal agent for NOECA. 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 and individuals.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

Fiduciary funds are 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.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

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

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

Under the modified accrual basis, tuition, interest revenue, revenue from services provided to other entities, and miscellaneous revenues are considered to be both measurable and available at fiscal year end.

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

Revenues resulting from nonexchange transactions received in advance of the fiscal year for which they were intended to finance are recorded as deferred inflows of resources. Grants not received within the available period and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows on the governmental fund financial statements.

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

The ESC has no deferred outflows of resources at June 30, 2014.

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.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

E. 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 investments" on the financial statements.

During fiscal year 2014, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price at which the investment could be sold on June 30, 2014.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$15,854 which includes \$1,757 assigned from other ESC funds.

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

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

F. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC's capitalization threshold is \$5,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings	30 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

G. Compensated Absences

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

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

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.

H. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Contractually required pension contributions are reported as liabilities in the fund statements when due.

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.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

I. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

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

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

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

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

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

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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

K. 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. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the funds balance is nonspendable on the fund financial statements by an amount equal to the carrying amount of the asset.

L. 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.

M. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the ESC has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Public school preschool	<u>\$ 266</u>

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

NOTE 4 - DEPOSITS AND INVESTMENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "equity in pooled cash and investments". Statutes require the classification of monies held by the ESC into three categories, as follows.

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 Governing 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.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (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.

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.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the ESC had \$43 in undeposited cash on hand which is included on the financial statements of the ESC as part of “equity in pooled cash and investments”.

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all ESC deposits was \$9,969,883. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosure*”, as of June 30, 2014, \$4,292,910 of the ESC’s bank balance of \$10,495,025 was exposed to custodial risk as discussed below, while \$6,202,115 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, 2014, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturity 6 months or less
STAR Ohio	\$ 8,763,713	\$ 8,763,713

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.

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 & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The ESC’s investment policy does not specifically address credit risk beyond requiring the ESC to only invest in securities authorized by State statute.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 8,763,713	100.00

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, 2014:

<u>Cash and cash equivalents per note</u>	
Carrying amount of deposits	\$ 9,969,883
Investments	8,763,713
Cash on hand	<u>43</u>
Total	<u>\$ 18,733,639</u>
 <u>Cash and cash equivalents per statement of net position</u>	
Governmental activities	\$ 7,779,004
Investment trust	1,742,730
Agency funds	<u>9,211,905</u>
Total	<u>\$ 18,733,639</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2014 consisted of accounts (charges for individual tuition and other services) accrued interest and intergovernmental (grants and billings to school districts for user charged services). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Accounts	\$ 13,282
Accrued interest	5,189
Intergovernmental	<u>1,132,656</u>
Total	<u>\$ 1,151,127</u>

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 - RECEIVABLES - (Continued)

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

NOTE 6 - STATE FUNDING

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

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$40.52 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their State foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment. The local school districts to which the ESC provides services have agreed to pay a per pupil amount to provide additional funding for services provided by the ESC, \$9.50 per pupil for school districts located in Erie County and \$6.50 for school districts located in Huron, Ottawa, and Sandusky Counties.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/13	Additions	Deductions	Balance 6/30/14
<i>Capital assets, not being depreciated:</i>				
Land	\$ -	\$ 114,850	\$ -	\$ 114,850
Total capital assets, not being depreciated	<u>-</u>	<u>114,850</u>	<u>-</u>	<u>114,850</u>
<i>Capital assets, being depreciated:</i>				
Buildings	90,000	875,920	(90,000)	875,920
Furniture and equipment	300,738	6,078	-	306,816
Vehicles	<u>42,105</u>	<u>-</u>	<u>-</u>	<u>42,105</u>
Total capital assets, being depreciated	<u>432,843</u>	<u>881,998</u>	<u>(90,000)</u>	<u>1,224,841</u>
<i>Less: accumulated depreciation</i>				
Buildings	(25,500)	(15,949)	26,850	(14,599)
Furniture and equipment	(251,353)	(11,813)	-	(263,166)
Vehicles	<u>(15,260)</u>	<u>(2,971)</u>	<u>-</u>	<u>(18,231)</u>
Total accumulated depreciation	<u>(292,113)</u>	<u>(30,733)</u>	<u>26,850</u>	<u>(295,996)</u>
Governmental activities capital assets, net	<u>\$ 140,730</u>	<u>\$ 966,115</u>	<u>\$ (63,150)</u>	<u>\$ 1,043,695</u>

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,350
Special	15,664
 <u>Support services:</u>	
Instructional staff	7,815
Fiscal	627
Business	2,240
Operations and maintenance	<u>3,037</u>
 Total depreciation expense	 <u><u>\$ 30,733</u></u>

NOTE 8 - LONG-TERM OBLIGATIONS

The ESC's long-term obligations at fiscal year-end consist of the following:

	Balance Outstanding <u>6/30/13</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>6/30/14</u>	Amounts Due in <u>One Year</u>
Compensated absences	<u>\$ 1,279,720</u>	<u>\$ 200,089</u>	<u>\$ (169,561)</u>	<u>\$ 1,310,248</u>	<u>\$ 245,172</u>

Compensated absences will be paid from the fund from which the employee's salaries are paid, which is primarily the general fund.

NOTE 9 - RISK MANAGEMENT

A. The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2014, the ESC has contracted with various insurance commercial carriers to provide insurance coverage for the following risks:

- Commercial property
- Inland marine
- Business liability
- Business personal property
- Business auto
- Education liability

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

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - RISK MANAGEMENT - (Continued)

B. Employee Health Benefits

The ESC provides employee health care benefits through the Huron-Erie School Employees Insurance Association.

The ESC has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 13 school districts that provide public education within Erie and Huron Counties. The school districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

In the event of withdrawal, the ESC shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

C. Workers' Compensation Group Rating Plan

The ESC participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. Participants in the Plan are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its Plan tier rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley UniServe, Inc. provides administrative, cost control, assistance with safety programs and actuarial services to the Plan.

NOTE 10 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The ESC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the ESC Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 10 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The ESC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$483,933, \$480,074 and \$449,959, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

B. State Teachers Retirement System of Ohio

Plan Description - The ESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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 DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor 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.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 10 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The ESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,174,668, \$1,309,725 and \$1,258,968, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$122,784 made by the ESC and \$96,473 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The ESC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B 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. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The ESC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$78,195, \$64,857 and \$83,331, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The ESC's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$28,076, \$27,119 and \$26,572, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law 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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The ESC's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$90,359, \$100,748 and \$96,884, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 12 - 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

NOTE 13 - 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	\$ 201,283
Nonmajor governmental funds	<u>68</u>
Total	<u>\$ 201,351</u>

NOTE 14 - EXTERNAL INVESTMENT POOL

The ESC serves as fiscal agent for Northern Ohio Educational Computer Association (NOECA) which is a legally separate entity. The ESC pools the monies of NOECA with the ESC's for investment purposes. Investments are not specifically purchased in the name of NOECA. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. NOECA is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns based upon its fund balance to the entire ESC's fund balance.

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 14 - EXTERNAL INVESTMENT POOL - (Continued)

During fiscal year 2014, investments of the ESC were limited to investments in STAR Ohio and non-negotiable certificates of deposit. The investment in STAR Ohio is valued at amounts reported by the State Treasurer and is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The non-negotiable certificates of deposit are reported at cost.

The statement of net position and statement of changes in net position for the external investment trust fund has been reported in the basic financial statements. Condensed financial information for the ESC's investment pool follows:

**Statement of Net Position
June 30, 2014**

Assets	
Equity in pooled cash and cash equivalents	\$ 18,733,639
Accrued interest receivable	<u>38,187</u>
Total assets	<u><u>\$ 18,771,826</u></u>
Net position held in trust for pool participants	
Internal portion	\$ 17,029,096
External portion	<u>1,742,730</u>
Total net position held in trust for pool participants	<u><u>\$ 18,771,826</u></u>

**Statement of Changes in Net Position
For Fiscal Year Ended June 30, 2014**

Additions	
Interest	\$ 89,984
Capital transactions	<u>45,838,062</u>
Total additions	<u>45,928,046</u>
Deductions	
Distributions to participants	56,911
Capital transactions	<u>46,188,303</u>
Total deductions	<u>46,245,214</u>
Change in net position	(317,168)
Net position, beginning of year	<u>19,088,994</u>
Net position, end of year	<u><u>\$ 18,771,826</u></u>

SUPPLEMENTARY INFORMATION

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Tuition	\$ 18,056,638	\$ 17,033,935	\$ 17,099,341	\$ 65,406
Services provided to other entities.	151,700	151,700	111,421	(40,279)
Earnings on investments	13,200	13,200	14,466	1,266
Rental income.	4,000	4,000	2,850	(1,150)
Contributions and donations	500	500	225	(275)
Other local revenues	55,000	55,000	49,068	(5,932)
Intergovernmental - state	1,008,362	1,081,065	1,094,011	12,946
Total revenues	<u>19,289,400</u>	<u>18,339,400</u>	<u>18,371,382</u>	<u>31,982</u>
Expenditures:				
Current:				
Instruction:				
Regular	445,225	612,725	574,566	38,159
Special.	10,028,343	9,572,982	7,237,044	2,335,938
Support services:				
Pupil.	7,323,186	7,322,529	5,308,362	2,014,167
Instructional staff	5,557,528	5,045,910	3,540,553	1,505,357
Board of education.	291,588	336,588	293,907	42,681
Administration.	686,025	689,417	566,376	123,041
Fiscal	431,344	431,344	310,982	120,362
Business.	61,757	62,895	52,852	10,043
Operations and maintenance.	676,785	655,640	487,315	168,325
Central	63,300	70,883	67,772	3,111
Facilities acquisition and construction	185,357	179,474	125,293	54,181
Total expenditures	<u>25,750,438</u>	<u>24,980,387</u>	<u>18,565,022</u>	<u>6,415,365</u>
Excess of expenditures over revenues	<u>(6,461,038)</u>	<u>(6,640,987)</u>	<u>(193,640)</u>	<u>6,447,347</u>
Other financing sources:				
Refund of prior year's expenditures	50,000	200,000	226,149	26,149
Sale of capital assets.	-	-	12,684	12,684
Total other financing sources	<u>50,000</u>	<u>200,000</u>	<u>238,833</u>	<u>38,833</u>
Net change in fund balance	(6,411,038)	(6,440,987)	45,193	6,486,180
Fund balance at beginning of year	7,168,442	7,168,442	7,168,442	-
Prior year encumbrances appropriated	230,406	230,406	230,406	-
Fund balance at end of year	<u>\$ 987,810</u>	<u>\$ 957,861</u>	<u>\$ 7,444,041</u>	<u>\$ 6,486,180</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

**NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - BUDGETARY PROCESS

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

The ESC's Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as both the original budgeted amounts and the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time the final appropriations were passed by the Board.

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The schedule of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and,
- (c) In order to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

**NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO**

NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 45,193
Net adjustment for revenue accruals	426,508
Net adjustment for expenditure accruals	126,587
Net adjustment for other sources and uses	(238,833)
Funds budgeted elsewhere	5,790
Adjustment for encumbrances	<u>196,233</u>
GAAP basis	<u>\$ 561,478</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 special trust fund and the special rotary fund.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required By *Government Auditing Standards***

North Point Educational Service Center
Erie County
1210 E. Bogart Road
Sandusky, Ohio 44870

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the North Point Educational Service Center's basic financial statements and have issued our report thereon dated November 3, 2014.

Internal Control Over Financial Reporting

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

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

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

Governing Board
North Point Educational Service Center

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 3, 2014

This page intentionally left blank.



Dave Yost • Auditor of State

NORTH POINT EDUCATIONAL SERVICE CENTER

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 16, 2014**