



Dave Yost • Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Governors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The schedule of revenues, expenditures and changes in fund balance – budget and actual comparison (non-GAAP budgetary basis) provides additional analysis and is not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and

compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 17, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2016. 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 2016 are as follows:

- In total, net position of governmental activities increased \$1,169,618 which represents a 3.37% increase from 2015's net position.
- General revenues accounted for \$1,093,670 in revenue or 5.51% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$18,754,372 or 94.49% of total revenues of \$19,848,042.
- The ESC had \$18,678,424 in expenses related to governmental activities; \$18,754,372 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$1,093,670 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$17,828,220 in revenues and other financing sources and \$17,684,446 in expenditures and other financing uses. During fiscal year 2016, the general fund's fund balance increased \$143,774 from a deficit balance of \$1,322,276 to a deficit balance of \$1,178,502.

Using these Basic Financial Statements

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

The *statement of net position* and *statement of activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and 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 we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the ESC's major fund. 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the ESC's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Supplementary Information

The ESC has presented budgetary comparison schedule for the general fund as supplementary information.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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The ESC as a Whole

The statement of net position provides the perspective of the ESC as a whole. The table below provides a summary of the ESC's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities	Governmental Activities
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets	\$ 837,713	\$ 828,213
Capital assets, net	<u>3,713,431</u>	<u>3,813,902</u>
Total assets	<u>4,551,144</u>	<u>4,642,115</u>
<u>Deferred Outflows of Resources</u>		
Pension	<u>2,983,492</u>	<u>1,977,579</u>
<u>Liabilities</u>		
Current liabilities	1,828,837	1,928,111
Long-term liabilities:		
Due within one year	283,015	300,089
Due in more than one year:		
Net pension liability	29,935,381	29,981,665
Other amounts	<u>3,457,095</u>	<u>3,691,901</u>
Total liabilities	<u>35,504,328</u>	<u>35,901,766</u>
<u>Deferred Inflows of Resources</u>		
Pension	<u>5,516,982</u>	<u>5,374,220</u>
<u>Net Position</u>		
Net investment in capital assets	678,116	673,902
Restricted	24,061	41,088
Unrestricted (deficit)	<u>(34,188,851)</u>	<u>(35,371,282)</u>
Total net position (deficit)	<u>\$ (33,486,674)</u>	<u>\$ (34,656,292)</u>

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

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

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those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

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

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

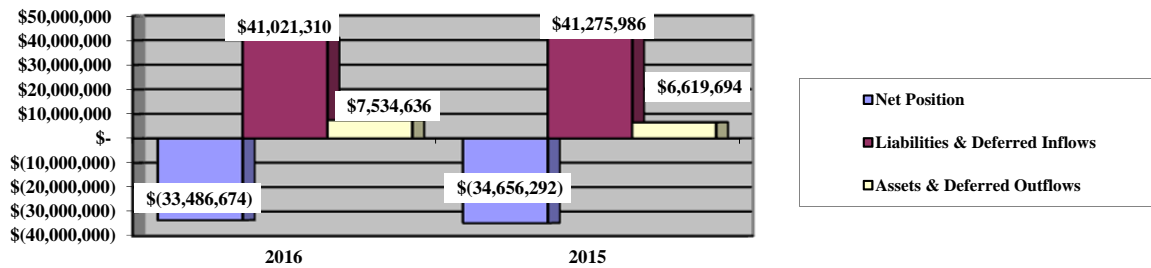
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the ESC's liabilities and deferred inflows exceeded assets and deferred outflows by \$33,486,674. Of this total, \$24,061 is restricted in use leaving the ESC with unrestricted net position with a deficit of \$34,188,851.

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The graph below illustrates the ESC's governmental activities assets, liabilities, and net position at June 30, 2016 and June 30, 2015.

Governmental Activities



The table below shows the change in net position for fiscal years 2016 and 2015.

Change in Net Position

	Governmental Activities 2016	Governmental Activities 2015
Revenues		
Program revenues:		
Charges for services and sales	\$ 16,745,615	\$ 15,820,294
Operating grants and contributions	2,008,757	2,475,715
General revenues:		
Grants and entitlements, unrestricted	855,346	1,035,335
Investment earnings	1,178	243
Other	237,146	271,992
Total revenues	<u>19,848,042</u>	<u>19,603,579</u>

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Change in Net Position (Continued)

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	1,774,746	1,448,195
Special	3,409,705	4,207,777
Other	135,482	39,605
Support services:		
Pupil	5,499,123	5,192,414
Instructional staff	2,875,704	3,603,239
Board of education	73,505	101,802
Administration	1,912,114	1,967,287
Fiscal	797,208	843,847
Business	183,883	201,985
Operations and maintenance	502,169	428,161
Pupil transportation	95,665	80,549
Central	953,483	845,708
Operations of non-instructional services:		
Other non-instructional services	328,110	82,757
Food service operations	23,752	33,197
Extracurricular activities	1,569	3,017
Interest and fiscal charges	112,206	113,596
Total expenses	<u>18,678,424</u>	<u>19,193,136</u>
Change in net position	1,169,618	410,443
Net position (deficit) at beginning of year	<u>(34,656,292)</u>	<u>(35,066,735)</u>
Net position (deficit) at end of year	<u>\$ (33,486,674)</u>	<u>\$ (34,656,292)</u>

Governmental Activities

Net position of the ESC's governmental activities increased \$1,169,618. Total governmental expenses of \$18,678,424 were offset by program revenues of \$18,754,372 and general revenues of \$1,093,670. Program revenues supported 100.41% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 84.32% of total governmental revenue.

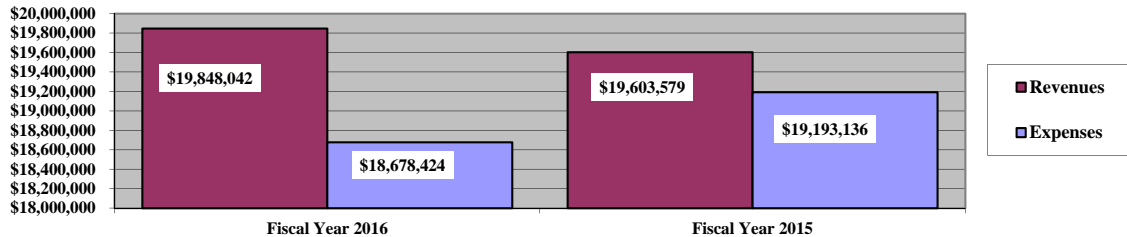
The largest expense of the ESC is for support services. Support services expenses totaled \$12,892,854 or 69.03% of total governmental expenses for fiscal year 2016. The \$514,712 decrease in expenses is the result of less pension expense being recognized under GASB Statement No. 68. This decrease was the result of a decrease in proportional share for the ESC.

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The graph below presents the ESC's governmental activities revenues and expenses for fiscal year 2016 and 2015.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 1,774,746	\$ (70,696)	\$ 1,448,195	\$ 277,261
Special	3,409,705	(240,691)	4,207,777	7,723
Other	135,482	135,482	39,605	39,605
Support services:				
Pupil	5,499,123	(306,169)	5,192,414	20,878
Instructional staff	2,875,704	(134,622)	3,603,239	(55,006)
Board of education	73,505	73,505	101,802	101,802
Administration	1,912,114	(100,291)	1,967,287	(5,246)
Fiscal	797,208	(38,646)	843,847	8,559
Business	183,883	183,883	201,985	201,985
Operations and maintenance	502,169	4,348	428,161	17,415
Pupil transportation	95,665	85,054	80,549	59,866
Central	953,483	(17,714)	845,708	26,477
Operations of non-instructional services:				
Other non-instructional services	328,110	237,898	82,757	80,768
Food service operations	23,752	1,567	33,197	783
Extracurricular activities	1,569	(1,062)	3,017	661
Interest and fiscal charges	<u>112,206</u>	<u>112,206</u>	<u>113,596</u>	<u>113,596</u>
Total expenses	<u>\$ 18,678,424</u>	<u>\$ (75,948)</u>	<u>\$ 19,193,136</u>	<u>\$ 897,127</u>

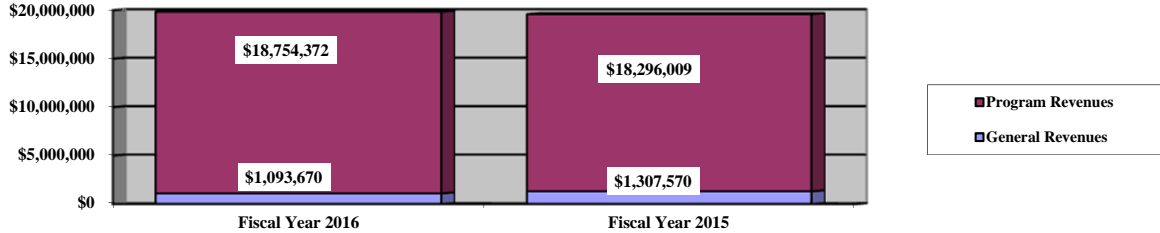
For all governmental activities, program revenue support is 100.41%. The primary support for the ESC is contracted fees for services provided to other districts.

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The graph below presents the ESC's governmental activities revenues for fiscal year 2016 and 2015.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance deficit of \$1,155,345, which reflects a smaller deficit than the \$1,277,132 in fiscal year 2015. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance (deficit) <u>June 30, 2016</u>	Fund Balance (deficit) <u>June 30, 2015</u>	<u>Change</u>	<u>Percentage Change</u>
General	\$ (1,178,502)	\$ (1,322,276)	\$ 143,774	10.87 %
Other Governmental	<u>23,157</u>	<u>45,144</u>	<u>(21,987)</u>	(48.70) %
Total	<u>\$ (1,155,345)</u>	<u>\$ (1,277,132)</u>	<u>\$ 121,787</u>	(9.54) %

General Fund

The ESC's general fund balance increased by \$143,774.

Revenues of the general fund increased \$490,811 or 2.84%. The largest increase was in the area of contract services which increased \$1,820,362. This increase was mainly due to an increase in direct billing invoices to Summit Academy Management. The largest decrease was in the area of tuition which decreased \$1,129,171. This decrease was a result of the loss a contract with Tiffin City Schools for services previously billed through the school district's foundation contract. Intergovernmental revenue decreased \$163,165 due to a decrease in State per-pupil foundation funding.

Expenditures of the general fund increased \$445,019 or 2.62%. The most significant increase was in the area of support services which increased \$417,344. These increased due to greater costs in the areas of pupil, operations and maintenance and central due to the Summit Academy Management contract. Instruction decreased \$224,214 due primarily to a decrease in special instruction costs due to the loss the Tiffin City Schools contract.

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

	2016 <u>Amount</u>	2015 <u>Amount</u>	<u>Change</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Tuition	\$ 10,327,813	\$ 11,456,984	\$ (1,129,171)	(9.86) %
Earnings on investments	1,178	243	935	384.77 %
Contract services	5,729,181	3,908,819	1,820,362	46.57 %
Other revenues	861,298	899,448	(38,150)	(4.24) %
Intergovernmental	<u>855,346</u>	<u>1,018,511</u>	<u>(163,165)</u>	(16.02) %
Total	<u>\$ 17,774,816</u>	<u>\$ 17,284,005</u>	<u>\$ 490,811</u>	2.84 %
<u>Expenditures</u>				
Instruction	\$ 5,280,241	\$ 5,504,455	\$ (224,214)	(4.07) %
Support services	11,819,027	11,401,683	417,344	3.66 %
Non-instructional services	255,820	78,897	176,923	224.25 %
Capital outlay	53,404	-	53,404	100.00 %
Debt service	<u>21,562</u>	<u>-</u>	<u>21,562</u>	100.00 %
Total	<u>\$ 17,430,054</u>	<u>\$ 16,985,035</u>	<u>\$ 445,019</u>	2.62 %

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the ESC had \$3,713,431 invested in land, buildings and improvements, furniture and equipment, vehicles and software. This entire amount is reported in governmental activities. The following table shows June 30, 2016 balances compared to June 30, 2015.

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

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
Land	\$ 148,850	\$ 148,850
Building and improvements	3,358,459	3,436,573
Furniture and equipment	154,733	228,479
Vehicles	51,389	-
Software	<u>-</u>	<u>-</u>
Total	<u>\$ 3,713,431</u>	<u>\$ 3,813,902</u>

The overall decrease in capital assets of \$100,471 is due to depreciation of \$166,905 and disposals (net of accumulated depreciation) of \$9,324 exceeding capital outlays of \$75,758 in the fiscal year.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)

Debt Administration

At June 30, 2016, the ESC had a \$3,035,315 in promissory notes and capital leases outstanding. Of this amount, \$162,765 is due in one year with the remaining amount of \$2,872,550 is due within more than one year. The following table summarizes the promissory note outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
Promissory note	\$ 3,000,000	\$ 3,140,000
Capital lease	<u>35,315</u>	<u>-</u>
Total	<u>\$ 3,035,315</u>	<u>\$ 3,140,000</u>

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

Current Financial Related Activities

Fiscal year 2016 continued to be a time in which Ohio schools face financial challenges. In June, 2016 House Bill 390 was passed which increased the ESC per pupil amount to \$27.00, which was up from \$24.58. The appropriation amount for ESC's was also increased to \$41,600,000 for fiscal year 2016 as a corrective measure to the FY16 State budget. This brought an increase of \$62,981 to our general fund at the end of the fiscal year. For fiscal year 2017, all ESC's must apply to be designated as a High Performing ESC in order to continue receiving the \$27.00 per pupil.

The ESC relies heavily on contracts with local, city, and exempted village school districts in Crawford, Seneca, Sandusky, Marion, Morrow, Union, and Wyandot Counties. Tiffin City Schools terminated their alignment and contract service agreement effective on June 30, 2015, which had an impact on revenues for fiscal year 2016. This action reduced our State funding by \$91,282.03, and contracted services were also reduced \$582,881.75 as a result of Tiffin City Schools reduction of contracted services. In an effort to provide additional revenue and control costs for our districts, the ESC acquired a contract with Summit Academy Management to provide special education services to their community schools and Children Residential Centers in FY16. The contract with Summit Academy Management resulted in \$1.7 million of services being provided in FY16. For FY17, Tiffin City Schools has resumed contracted services with the North Central Ohio ESC, and will also be returning their alignment to us beginning July 1, 2017.

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

Contacting the ESC's Financial Management

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

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

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 66,170
Accounts.	8,905
Intergovernmental, net.	762,638
Capital assets:	
Nondepreciable capital assets	148,850
Depreciable capital assets, net.	3,564,581
Capital assets, net	3,713,431
Total assets.	4,551,144
 Deferred outflows of resources:	
Pension - STRS	2,293,229
Pension - SERS	690,263
Total deferred outflows of resources.	2,983,492
 Total assets and deferred outflows of resources	 7,534,636
 Liabilities:	
Accounts payable.	84,486
Accrued wages and benefits payable	1,434,964
Pension and postemployment benefits payable	228,800
Intergovernmental payable	58,865
Unearned revenue	17,503
Accrued interest payable	4,219
Long-term liabilities:	
Due within one year.	283,015
Due in more than one year:	
Net pension liability	29,935,381
Other amounts due in more than one year	3,457,095
Total liabilities	35,504,328
 Deferred inflows of resources:	
Pension - STRS.	4,271,670
Pension - SERS.	1,245,312
Total deferred inflows of resources	5,516,982
 Total liabilities and deferred inflows of resources	 41,021,310
 Net position:	
Net investment in capital assets	678,116
Restricted for:	
Locally funded programs	10,179
Federally funded programs	6,440
Other purposes	7,442
Unrestricted (deficit)	(34,188,851)
Total net position.	\$ (33,486,674)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<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>	
Governmental activities:				
Instruction:				
Regular	\$ 1,774,746	\$ 1,726,508	\$ 118,934	\$ 70,696
Special	3,409,705	3,494,946	155,450	240,691
Other	135,482	-	-	(135,482)
Support services:				
Pupil	5,499,123	5,789,582	15,710	306,169
Instructional staff	2,875,704	1,889,809	1,120,517	134,622
Board of education	73,505	-	-	(73,505)
Administration	1,912,114	1,715,078	297,327	100,291
Fiscal	797,208	750,678	85,176	38,646
Business	183,883	-	-	(183,883)
Operations and maintenance	502,169	427,747	70,074	(4,348)
Pupil transportation	95,665	-	10,611	(85,054)
Central	953,483	945,751	25,446	17,714
Operation of non-instructional services:				
Other non-instructional services	328,110	2,036	88,176	(237,898)
Food service operations	23,752	2,594	19,591	(1,567)
Extracurricular activities	1,569	886	1,745	1,062
Interest and fiscal charges	112,206	-	-	(112,206)
Total governmental activities	\$ 18,678,424	\$ 16,745,615	\$ 2,008,757	75,948
General revenues:				
Grants and entitlements not restricted to specific programs				855,346
Investment earnings				1,178
Miscellaneous				237,146
Total general revenues				1,093,670
Change in net position				1,169,618
Net position (deficit) at beginning of year				(34,656,292)
Net position (deficit) at end of year				\$ (33,486,674)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 29,419	\$ 36,751	\$ 66,170
Accounts	7,772	1,133	8,905
Intergovernmental, net.	634,078	128,560	762,638
Due from other funds	36,595	-	36,595
Total assets	<u>\$ 707,864</u>	<u>\$ 166,444</u>	<u>\$ 874,308</u>
Liabilities:			
Accounts payable	\$ 44,459	\$ 40,027	\$ 84,486
Accrued wages and benefits payable	1,423,924	11,040	1,434,964
Compensated absences payable	9,789	-	9,789
Intergovernmental payable	36,277	22,588	58,865
Unearned revenue.	17,503	-	17,503
Pension and postemployment benefits payable	226,946	1,854	228,800
Due to other funds	-	36,595	36,595
Total liabilities.	<u>1,758,898</u>	<u>112,104</u>	<u>1,871,002</u>
Deferred inflows of resources:			
Intergovernmental revenue not available.	127,468	31,183	158,651
Total liabilities and deferred inflows of resources	<u>1,886,366</u>	<u>143,287</u>	<u>2,029,653</u>
Fund balances:			
Restricted:			
Food service operations	-	7,442	7,442
Special education	-	929	929
Other purposes.	-	30,029	30,029
Unassigned (deficit).	<u>(1,178,502)</u>	<u>(15,243)</u>	<u>(1,193,745)</u>
Total fund balances (deficit)	<u>(1,178,502)</u>	<u>23,157</u>	<u>(1,155,345)</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 707,864</u>	<u>\$ 166,444</u>	<u>\$ 874,308</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	(1,155,345)
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,713,431
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Accounts receivable	\$	1,796	
Intergovernmental receivable		156,855	
Total		<u>158,651</u>	158,651
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		2,983,492	
Deferred inflows of resources - pension		(5,516,982)	
Net pension liability		<u>(29,935,381)</u>	
Total			(32,468,871)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,219)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable		(3,000,000)	
Capital lease obligations		(35,315)	
Compensated absences		<u>(695,006)</u>	
Total			<u>(3,730,321)</u>
Net position of governmental activities		<u>\$</u>	<u>(33,486,674)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Tuition	\$ 10,327,813	\$ -	\$ 10,327,813
Earnings on investments	1,178	-	1,178
Charges for services	-	2,594	2,594
Extracurricular	-	1,800	1,800
Classroom materials and fees	105	-	105
Contributions and donations	15,422	5,791	21,213
Contract services	5,729,181	7,331	5,736,512
Other local revenues	845,771	17,099	862,870
Intergovernmental - state	855,346	492,921	1,348,267
Intergovernmental - federal	-	1,487,127	1,487,127
Total revenues	<u>17,774,816</u>	<u>2,014,663</u>	<u>19,789,479</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,651,086	118,703	1,769,789
Special	3,478,888	158,547	3,637,435
Other	150,267	-	150,267
Support services:			
Pupil	5,750,810	16,057	5,766,867
Instructional staff	1,874,695	1,148,212	3,022,907
Board of education	68,871	2,500	71,371
Administration	1,730,678	291,119	2,021,797
Fiscal	752,679	86,924	839,603
Business	191,422	-	191,422
Operations and maintenance	424,868	76,354	501,222
Pupil transportation	85,618	10,608	96,226
Central	939,386	20,290	959,676
Operation of non-instructional services:			
Other non-instructional services	255,820	87,477	343,297
Food service operations	-	23,752	23,752
Extracurricular activities	-	1,569	1,569
Capital outlay	53,404	-	53,404
Debt service:			
Principal retirement	18,089	140,000	158,089
Interest and fiscal charges	3,473	108,930	112,403
Total expenditures	<u>17,430,054</u>	<u>2,291,042</u>	<u>19,721,096</u>
Excess (deficiency) of revenues over (under) expenditures	<u>344,762</u>	<u>(276,379)</u>	<u>68,383</u>
Other financing sources (uses):			
Transfers in	-	254,392	254,392
Transfers (out)	(254,392)	-	(254,392)
Capital lease transaction	53,404	-	53,404
Total other financing sources (uses)	<u>(200,988)</u>	<u>254,392</u>	<u>53,404</u>
Net change in fund balances	143,774	(21,987)	121,787
Fund balances (deficit) at beginning of year	<u>(1,322,276)</u>	<u>45,144</u>	<u>(1,277,132)</u>
Fund balances (deficit) at end of year	<u>\$ (1,178,502)</u>	<u>\$ 23,157</u>	<u>\$ (1,155,345)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds	\$	121,787
<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	\$ 75,758	
Current year depreciation	(166,905)	
Total		(91,147)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(9,324)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition	(9,770)	
Contract services	102,426	
Other local revenues	(33,401)	
Intergovernmental	(692)	
Total		58,563
Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of position. Principal payments during the year were:		
Notes	140,000	
Capital leases	18,089	
Total		158,089
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities:		
Decrease in accrued interest payable		197
Issuances of capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(53,404)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,808,413
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(898,978)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		75,422
Change in net position of governmental activities	\$	1,169,618

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 1,067	\$ 2,098,696
Intergovernmental	-	51,683
Total assets.	<u>\$ 1,067</u>	<u>\$ 2,150,379</u>
Liabilities:		
Accounts payable.	\$ -	\$ 5,846
Intergovernmental payable	-	2,144,533
Total liabilities	<u>-</u>	<u>\$ 2,150,379</u>
Net position:		
Held in trust for scholarships	<u>1,067</u>	
Total net position.	<u>\$ 1,067</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

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

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services and facilities acquisitions. The ESC is staffed by 172 noncertified employees and 156 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and ESC's. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and ESC's. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating ESC and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. Financial information can be obtained by contacting Matt Bauer, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

North Central Ohio Regional Council of Governments (NCORcog)

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

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

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

North Central Ohio Trust Regional Council of Governments (NCOT)

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

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

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

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

PUBLIC ENTITY RISK POOLS

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

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, three school districts - Old Fort, Seneca East and Mohawk and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts and the ESC. The ESC acts as fiscal agent to the Association, but the Association's financial statements are not reported with the ESC's financial statements.

As fiscal agent, the ESC reports the Association's financial assets and liabilities for fiscal year 2016 in the basic financial statements as an agency fund. To obtain financial information, write Tina Peyton, Treasurer, North Central Ohio Educational Service Center, 928 West Market Street, Suite A, Tiffin, Ohio 44883.

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

PROPRIETARY FUND

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

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

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the ESC. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the ESC.

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

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

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

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

Unearned Revenue - Revenues received during fiscal year 2016 resulting from exchange transactions for which the ESC has yet to provide the requisite services as of June 30, 2016 have been recorded as unearned revenue on both the government-wide and fund financial statements.

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

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

E. Budgets

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

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

F. Cash and Investments

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

During fiscal year 2016, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). 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 the investment could be sold for on June 30, 2016.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$1,178, which includes \$686 assigned from other funds.

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

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

G. Capital Assets

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

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

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

H. Interfund Balances

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

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

I. Compensated Absences

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2016, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of service, including three with the ESC were considered expected to become eligible to retire in accordance with GASB Statement No. 16 (See Note 9 for detail on compensated absences).

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

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

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

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

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

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

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

L. Net Position

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

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

M. Prepayments

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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

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

N. Estimates

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

O. Interfund Activity

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

P. Pensions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type occurred during fiscal year 2016.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the ESC has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the ESC.

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the ESC.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the ESC.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the ESC.

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Major funds</u>	<u>Deficit</u>
General	\$ 1,178,502
<u>Nonmajor funds</u>	
Education foundation	33
Miscellaneous State grants	3,318
Title I	4,273
Miscellaneous federal grants	7,619

The general fund is liable for any 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

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

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

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

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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.

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all ESC deposits was \$1,720,836. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$1,569,613 of the ESC’s bank balance of \$1,951,308 was exposed to custodial risk as discussed below, while \$381,695 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, 2016, the ESC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 444,997	\$ 444,997

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.

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.

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 444,997	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, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,720,836
Investments	444,997
Cash on hand	<u>100</u>
Total	<u>\$ 2,165,933</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 66,170
Private-purpose trust funds	1,067
Agency funds	<u>2,098,696</u>
Total	<u>\$ 2,165,933</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>\$ 254,392</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

B. Due to/from other funds consisted of the following at June 30, 2016, as reported on the fund statement:

General fund	Nonmajor governmental funds	<u>\$ 36,595</u>
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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016 consisted of accounts and intergovernmental receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds except as noted. The intergovernmental receivables reported on the statement of net position follows:

Accounts	\$ 8,905
Intergovernmental:	
State and federal grants	128,560
State foundation adjustments	9,581
Contract services receivable	951,010
Less: allowance for uncollectibles	<u>(326,513)</u>
Net intergovernmental receivable	<u>762,638</u>
Total governmental activities	<u>\$ 771,543</u>

The allowance for uncollectibles includes \$326,513 which will not be received by the ESC due to the closing of multiple community schools.

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BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 7 - CAPITAL ASSETS

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

	Balance			Balance
	<u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2016</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 148,850	\$ -	\$ -	\$ 148,850
Total capital assets, not being depreciated	<u>148,850</u>	<u>-</u>	<u>-</u>	<u>148,850</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	3,752,978	-	-	3,752,978
Furniture and equipment	1,123,512	20,694	(52,734)	1,091,472
Vehicles	-	55,064	-	55,064
Software	54,631	-	-	54,631
Total capital assets, being depreciated	<u>4,931,121</u>	<u>75,758</u>	<u>(52,734)</u>	<u>4,954,145</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(316,405)	(78,114)	-	(394,519)
Furniture and equipment	(895,033)	(85,116)	43,410	(936,739)
Vehicles	-	(3,675)	-	(3,675)
Software	(54,631)	-	-	(54,631)
Total accumulated depreciation	<u>(1,266,069)</u>	<u>(166,905)</u>	<u>43,410</u>	<u>(1,389,564)</u>
Governmental activities capital assets, net	<u>\$ 3,813,902</u>	<u>\$ (91,147)</u>	<u>\$ (9,324)</u>	<u>\$ 3,713,431</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 100,702
Special	2,512
Other	12,000
<u>Support services:</u>	
Pupil	1,616
Instructional staff	8,363
Board of education	3,357
Administration	5,348
Fiscal	235
Operations and maintenance	8,793
Pupil transportation	5,452
Central	<u>18,527</u>
Total depreciation expense	<u>\$ 166,905</u>

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NOTE 8 - CAPITALIZED LEASE - LESSEE DISCLOSURE

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

Capital assets consisting of vehicles have been capitalized in the amount of \$55,064 on the statement of net position. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2016 was \$3,675 leaving a current book value of \$51,389. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2016 totaled \$18,089 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 19,903
2018	<u>18,245</u>
Total minimum lease payments	38,148
Less: amount representing interest	<u>(2,833)</u>
Total	<u>\$ 35,315</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2016, the following changes occurred in governmental activities long-term obligations.

	Balance Outstanding <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/16</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Promissory Note - 3.55%	\$ 3,140,000	\$ -	\$ (140,000)	\$ 3,000,000	\$ 145,000
Compensated absences payable	851,990	40,334	(187,529)	704,795	120,250
Net pension liability	29,981,665	272,087	(318,371)	29,935,381	-
Capital lease obligations	<u>-</u>	<u>53,404</u>	<u>(18,089)</u>	<u>35,315</u>	<u>17,765</u>
Total long-term obligations, governmental activities	<u>\$ 33,973,655</u>	<u>\$ 365,825</u>	<u>\$ (663,989)</u>	<u>\$ 33,675,491</u>	<u>\$ 283,015</u>

On June 8, 2011, the ESC entered into a promissory note to provide financing for the acquisition of an administrative and educational services building. The note bears an interest rate of 3.55% and matures on December 1, 2031.

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

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NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

See Note 12 for detail on the net pension liability.

See Note 8 for capital lease obligations.

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

Fiscal Year Ended	Promissory Note		
	Principal	Interest	Total
2017	\$ 145,000	\$ 103,926	\$ 248,926
2018	145,000	98,779	243,779
2019	155,000	93,453	248,453
2020	160,000	87,862	247,862
2021	165,000	82,094	247,094
2022 - 2026	910,000	317,368	1,227,368
2027 - 2031	1,080,000	141,112	1,221,112
2032 - 2033	240,000	4,263	244,263
Total	<u>\$ 3,000,000</u>	<u>\$ 928,857</u>	<u>\$ 3,928,857</u>

NOTE 10 - COMPENSATED ABSENCES

Sick Leave:

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

Severance Pay:

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

Retirement

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

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.

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NOTE 10 - COMPENSATED ABSENCES – (Continued)

4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the state or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.
6. The individual must sign for his/her severance check certifying that all eligibility criteria are met.
7. In order to receive severance pay, classified and certified staff shall have provided written notification of his/her intention to retire 90 days prior to the anticipated retirement date. Administrative staff is required to provide written notification by April 1st of the retirement year.

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

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

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

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

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

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

B. Employee Health Insurance

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

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NOTE 11 - RISK MANAGEMENT - (Continued)

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

C. Workers' Compensation

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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NOTE 12 - DEFINED BENEFIT 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 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was \$565,609 for fiscal year 2016. Of this amount, \$82,324 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The ESC's contractually required contribution to STRS was \$1,242,804 for fiscal year 2016. Of this amount, \$82,325 is reported as pension and postemployment benefits payable.

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

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

	SERS	STRS	Total
Proportionate share of the net pension liability	\$ 7,280,483	\$ 22,654,898	\$ 29,935,381
Proportion of the net pension liability	0.1275913%	0.08197285%	
Pension expense	\$ 139,911	\$ 759,067	\$ 898,978

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 124,654	\$ 1,050,425	\$ 1,175,079
ESC contributions subsequent to the measurement date	<u>565,609</u>	<u>1,242,804</u>	<u>1,808,413</u>
Total deferred outflows of resources	<u>\$ 690,263</u>	<u>\$ 2,293,229</u>	<u>\$ 2,983,492</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 380,181	\$ 1,968,453	\$ 2,348,634
Changes in proportionate share	<u>865,131</u>	<u>2,303,217</u>	<u>3,168,348</u>
Total deferred inflows of resources	<u>\$ 1,245,312</u>	<u>\$ 4,271,670</u>	<u>\$ 5,516,982</u>

\$1,808,413 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (408,030)	\$ (1,050,649)	\$ (1,458,679)
2018	(408,030)	(1,050,649)	(1,458,679)
2019	(408,030)	(1,050,651)	(1,458,681)
2020	<u>103,432</u>	<u>(69,296)</u>	<u>34,136</u>
Total	<u>\$ (1,120,658)</u>	<u>\$ (3,221,245)</u>	<u>\$ (4,341,903)</u>

Actuarial Assumptions - SERS

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease █ (6.75%)	Current Discount Rate █ (7.75%)	1% Increase █ (8.75%)
ESC's proportionate share of the net pension liability	\$ 10,095,414	\$ 7,280,483	\$ 4,910,079

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is no known, the impact to the District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

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

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

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

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

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NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

	1% Decrease █ (6.75%)	Current █ Discount Rate (7.75%)	1% Increase █ (8.75%)
ESC's proportionate share of the net pension liability	\$31,469,362	\$ 22,654,898	\$ 15,200,954

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NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the ESC's surcharge obligation was \$65,311.

The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$64,151, \$104,079, and \$70,923, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

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

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$94,059, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 14 - STATE FUNDING

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

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the participating school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$35.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. However, due to State funding cuts the ESC was only funded \$27.00 per ADM.

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 \$35.00 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 districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the ESCs. These reviews are conducted to ensure the ESCs are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the ESC; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the ESC.

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

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 16 - OTHER COMMITMENTS

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

<u>Fund</u>	Year-End <u>Encumbrances</u>
General fund	\$ 113,973
Other governmental	<u>94,703</u>
Total	<u>\$ 208,676</u>

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.12759130%	0.15014700%	0.15014700%
ESC's proportionate share of the net pension liability	\$ 7,280,483	\$ 7,598,854	\$ 8,928,760
ESC's covered-employee payroll	\$ 3,841,161	\$ 4,362,973	\$ 4,326,329
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	206.38%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's proportion of the net pension liability	0.08197285%	0.09202149%	0.09202149%
ESC's proportionate share of the net pension liability	\$ 22,654,898	\$ 22,382,811	\$ 26,662,258
ESC's covered-employee payroll	\$ 8,508,264	\$ 9,402,054	\$ 9,405,869
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	266.27%	238.06%	283.46%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 565,609	\$ 506,265	\$ 604,708	\$ 598,764
Contributions in relation to the contractually required contribution	<u>(565,609)</u>	<u>(506,265)</u>	<u>(604,708)</u>	<u>(598,764)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 4,040,064	\$ 3,841,161	\$ 4,362,973	\$ 4,326,329
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 533,396	\$ 476,387	\$ 476,512	\$ 291,490	\$ 203,466	\$ 172,298
<u>(533,396)</u>	<u>(476,387)</u>	<u>(476,512)</u>	<u>(291,490)</u>	<u>(203,466)</u>	<u>(172,298)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,965,770	\$ 3,789,873	\$ 3,519,291	\$ 2,962,297	\$ 2,071,955	\$ 1,613,277
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,242,804	\$ 1,191,157	\$ 1,222,267	\$ 1,222,763
Contributions in relation to the contractually required contribution	<u>(1,242,804)</u>	<u>(1,191,157)</u>	<u>(1,222,267)</u>	<u>(1,222,763)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 8,877,171	\$ 8,508,264	\$ 9,402,054	\$ 9,405,869
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,097,398	\$ 1,030,252	\$ 988,611	\$ 914,357	\$ 724,074	\$ 608,638
<u>(1,097,398)</u>	<u>(1,030,252)</u>	<u>(988,611)</u>	<u>(914,357)</u>	<u>(724,074)</u>	<u>(608,638)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,441,523	\$ 7,925,015	\$ 7,604,700	\$ 7,033,515	\$ 5,569,800	\$ 4,681,831
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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

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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 10,437,413	\$ 10,455,862	\$ 10,207,876	\$ (247,986)
Earnings on investments	300	1,000	1,178	178
Classroom materials and fees	400	400	105	(295)
Contributions and donations	12,500	13,275	11,574	(1,701)
Contract services	7,310,066	5,917,544	5,509,725	(407,819)
Other local revenues	1,164,258	941,507	817,335	(124,172)
Intergovernmental - state	776,989	861,793	861,793	-
Total revenues	<u>19,701,926</u>	<u>18,191,381</u>	<u>17,409,586</u>	<u>(781,795)</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,810,019	1,704,569	1,613,698	90,871
Special	4,132,126	3,703,630	3,602,966	100,664
Other	211,624	156,923	131,205	25,718
Support services:				
Pupil	5,826,512	5,914,611	5,751,189	163,422
Instructional staff	2,221,973	1,989,216	1,896,922	92,294
Board of education	118,312	74,821	69,410	5,411
Administration	2,192,150	1,804,734	1,730,654	74,080
Fiscal	1,009,559	844,881	830,124	14,757
Business	230,795	200,032	193,017	7,015
Operations and maintenance	567,392	496,631	469,808	26,823
Pupil transportation	121,444	122,791	117,730	5,061
Central	1,170,692	978,532	941,956	36,576
Operation of non-instructional services:				
Other non-instructional services	181,481	251,262	228,038	23,224
Total expenditures	<u>19,794,079</u>	<u>18,242,633</u>	<u>17,576,717</u>	<u>665,916</u>
Excess of expenditures over revenues	<u>(92,153)</u>	<u>(51,252)</u>	<u>(167,131)</u>	<u>(115,879)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	60,000	66,200	66,200	-
Transfers in	-	14,093	14,093	-
Transfers (out)	(339,219)	(379,302)	(379,302)	-
Sale of capital assets	-	800	800	-
Total other financing sources (uses)	<u>(279,219)</u>	<u>(298,209)</u>	<u>(298,209)</u>	<u>-</u>
Net change in fund balance	(371,372)	(349,461)	(465,340)	(115,879)
Fund balance at beginning of year	20,029	20,029	20,029	-
Prior year encumbrances appropriated	360,995	360,995	360,995	-
Fund balance (deficit) at end of year	<u>\$ 9,652</u>	<u>\$ 31,563</u>	<u>\$ (84,316)</u>	<u>\$ (115,879)</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

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

NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (465,340)
Net adjustment for revenue accruals	353,852
Net adjustment for expenditure accruals	52,475
Net adjustment for other sources/uses	(13,596)
Funds budgeted elsewhere	76,578
Adjustment for encumbrances	139,805
GAAP basis	\$ 143,774

Certain funds that are budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund, the employee benefits-self insurance fund and the termination benefits fund.

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

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

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Total Federal Receipts	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<u>Child Nutrition Cluster:</u>			
National School Breakfast Program	10.553	\$ 1,317	\$ 1,317
National School Lunch Program	10.555	17,533	17,533
Total U.S. Department of Agriculture - Child Nutrition Cluster		18,850	18,850
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster (IDEA):</u>			
Special Education Grants to States	84.027	1,134,675	1,173,810
Special Education Preschool Grants	84.173	125,463	134,369
Total Special Education Cluster (IDEA)		1,260,138	1,308,179
Title I Grants to Local Educational Agencies	84.010	48,752	48,752
Improving Teacher Quality State Grants	84.367		8,081
English Language Acquisition State Grants	84.365	29,692	29,693
ARRA - Race to the Top	84.395A	5,581	72,656
Special Education - State Personnel Development	84.323	59,937	64,365
Race to the Top - Early Learning Challenge	84.412	29,414	29,757
<i>Passed Through Ohio Department of Health</i>			
Special Education - Grants for Infants and Families	84.181	79,639	80,804
Total U.S. Department of Education		1,513,153	1,642,287
Total Receipts and Expenditures of Federal Awards		\$ 1,532,003	\$ 1,661,137

The accompanying notes are an integral part of this schedule.

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

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receipts and Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The ESC has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Special Education - Grants to States	84.027	\$ 327
Special Education - State Personnel Development	84.323	\$ 23,793

The District transferred the following amounts from 2015 to 2016 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Special Education - Grants to States	84.027	\$ 327
Special Education - State Personnel Development	84.323	\$ 70,060



Dave Yost • Auditor of State

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

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

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center, Seneca County, Ohio (the ESC) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated March 17, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

March 17, 2017



Dave Yost • Auditor of State

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

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

To the Board of Governors:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, North Central Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State

Columbus, Ohio

March 17, 2017

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

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • Auditor of State

NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 6, 2017**