NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

Governing Board
North Point Educational Service Center
1210 E. Bogart Rd
Sandusky, OH 44870

We have reviewed the *Independent Auditor's Report* of the North Point Educational Service Center, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

February 8, 2019

This page intentionally left blank.

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

TABLE OF CONTENTS

This page intentionally left blank.

Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

North Point Educational Service Center
Erie County
4918 Milan Road
Sandusky, Ohio 44870

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Point Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during fiscal year 2018, the North Point Education Service Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other postemployment benefit liabilities and pension and other postemployment benefit 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 North Point Educational Service Center's basic financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018, on our consideration of the North Point Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Point Educational Service Center's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 13, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The management's discussion and analysis of the North Point Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2018. 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 2018 are as follows:

- In total, net position of governmental activities increased $11,022,648 which represents a 32.82% increase from the restated net position at June 30, 2017.

- General revenues accounted for $1,162,389 or 6.25% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, and capital grants and contributions accounted for $17,447,187 or 93.75% of total revenues of $18,609,576.

- The ESC had $7,586,928 in expenses related to governmental activities; $17,447,187 of these expenses were offset by program specific charges for services, grants or contributions.

- The general fund is the ESC's only major governmental fund. The general fund had $18,086,017 in revenues and other financing sources and $17,945,232 in expenditures. During fiscal year 2018, the general fund's fund balance increased $140,785 from $4,494,445 to a balance of $4,635,230.

Using the Basic Financial Statements

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

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

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did the ESC perform financially during 2018?" The statement of net position and statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund, the general fund, begins on page 11. 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 statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the Northern Ohio Educational Computer Association ("NOECA"), a computer consortium, and the Huron-Erie School Employees Insurance Association. NOECA is presented as an agency fund. The ESC also maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 19. These activities are excluded from the ESC's other financial statements because these resources cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21 through 56 of this report.

Budgetary Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 58-60.

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 and net OPEB liability. The required supplementary information can be found on pages 62 through 75 of this report.

The ESC as a Whole

The table below provides a summary of the ESC's net position at June 30, 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.

Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Assets		
Current and other assets	$ 7,368,454	$ 8,147,624
Capital assets, net	1,716,134	958,215
Total assets	9,084,588	9,105,839
Deferred Outflows of Resources		
Pension	7,838,018	6,520,154
OPEB	371,535	70,250
Total deferred outflows of resources	8,209,553	6,590,404
Liabilities		
Current liabilities	1,898,588	2,008,922
Long-term liabilities:		
Due within one year	204,958	173,171
Due in more than one year:		
Net pension liability	26,998,975	36,026,695
Net OPEB liability	6,633,552	7,945,530
Other amounts	1,054,147	985,697
Total liabilities	36,790,220	47,140,015
Deferred Inflows of Resources		
Pension	2,299,868	2,137,549
OPEB	762,726	-
Total deferred inflows of resources	3,062,594	2,137,549
Net Position		
Net investment in capital assets	1,707,736	958,215
Restricted	3,991	2,645
Unrestricted (deficit)	(24,270,400)	(34,542,181)
Total net position (deficit)	$ (22,558,673)	$ (33,581,321)

The net pension liability (NPL) is the largest single liability reported by the ESC at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the ESC adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ESC's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OBEP liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the ESC's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the ESC's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

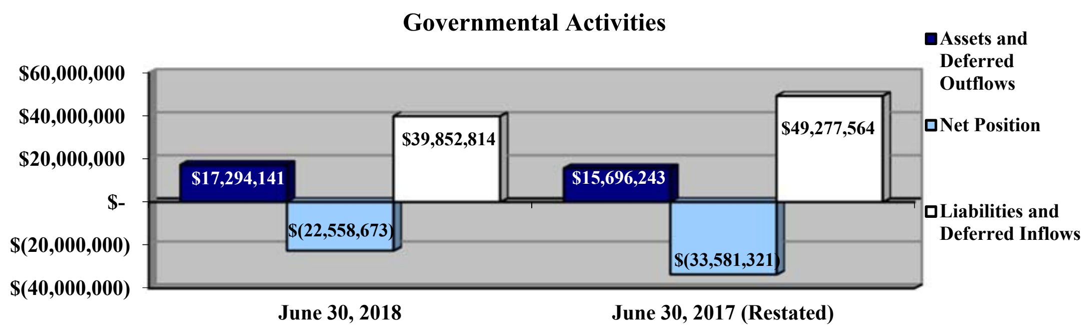
As a result of implementing GASB 75, the ESC is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of $25,706,041 to a deficit of $33,581,321.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the ESC's liabilities and deferred inflows exceeded assets and deferred outflows by $22,558,673. Of this total, $3,991 is restricted in use.

At year-end, capital assets represented 18.89% of total assets. Capital assets include land, buildings and leaseholder improvements, furniture and equipment and vehicles. The ESC's net investment in capital assets at June 30, 2018, was $1,707,736. These capital assets are used to provide the ESC's services, thus net position invested in capital assets equal to the carrying value of assets is not available for future spending.

A portion of the ESC's net position, $3,991, represents resources that are subject to external restriction on how these resources may be used. The remaining balance of unrestricted net position is a deficit of $24,270,400.

The graph that follows illustrates the governmental activities assets and deferred outflows, liabilities and deferred inflows and net position at June 30, 2018 and 2017. The amounts at June 30, 2017 have been restated as described in Note 3.



The table below shows the change in net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.

Change in Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Revenues		
Program revenues:		
Charges for services and sales	$ 16,858,096	$ 16,272,192
Operating grants and contributions	579,480	750,529
Capital grants and contributions	9,611	1,024
General revenues:		
Grants and entitlements	1,043,490	1,004,706
Investment earnings	68,253	43,106
Miscellaneous	50,646	36,107
Total revenues	18,609,576	18,107,664
Expenses		
Program expenses:		
Instruction:		
Regular	283,736	912,019
Special	3,484,448	7,763,620
Support services:		
Pupil	1,615,080	5,033,719
Instructional staff	1,163,249	3,053,435
Board of education	27,288	69,571
Administration	276,531	600,728
Fiscal	170,006	441,831
Business	1,795	7,062
Operations and maintenance	435,437	625,758
Central	61,947	242,261
Operation of non-instructional services	56,783	81,836
Extracurricular activities	10,628	22,727
Total expenses	7,586,928	18,854,567
Change in net position	11,022,648	(746,903)
Net position (deficit) at beginning of year (restated)	(33,581,321)	N/A
Net position (deficit) at end of year	$ (22,558,673)	$ (33,581,321)

Governmental Activities

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $70,250 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $765,606. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 7,586,928
Negative OPEB expense under GASB 75	765,606
2018 contractually required contributions	84,931
Adjusted 2018 program expenses	8,437,465
Total 2017 program expenses under GASB 45	18,854,567
Decrease in program expenses not related to OPEB	$ (10,417,102)

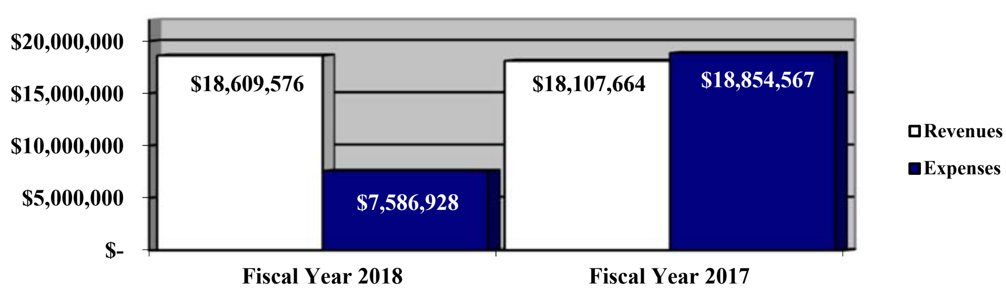
Net position of the ESC's governmental activities increased $11,022,648. Total governmental expenses of $7,586,928 were offset by program revenues of $17,447,187 and general revenues of $1,162,389. Program revenues supported 229.96% of the total governmental expenses.

Total revenues of the ESC increased $501,912 or 2.77%. The primary sources of revenue for governmental activities are derived from sales and charges for services provided to other entities. This revenue source represents 90.59% of total governmental revenue.

Expenses of the governmental activities decreased $11,267,639 or 59.76%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the ESC reported ($8,471,354) in pension expense and ($765,606) in OPEB expense mainly due to these benefit changes.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2018 and 2017.

Governmental Activities - Revenues and Expenses



NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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.

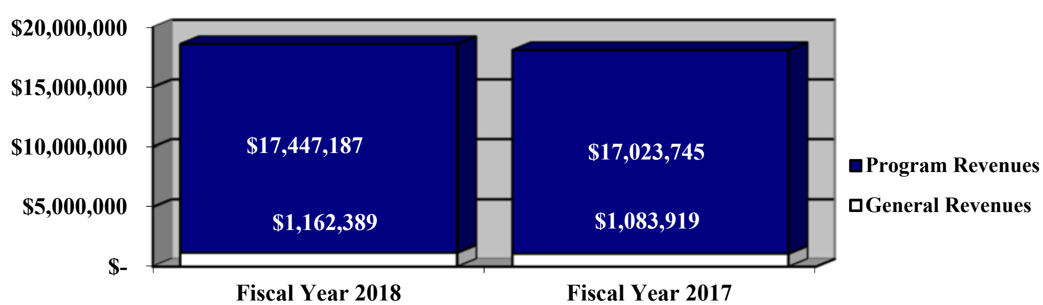
Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Program expenses				
Instruction:				
Regular	$ 283,736	$ (563,306)	$ 912,019	$ 110,609
Special	3,484,448	(3,693,165)	7,763,620	706,836
Support services:				
Pupil	1,615,080	(3,192,916)	5,033,719	436,143
Instructional staff	1,163,249	(1,700,125)	3,053,435	169,649
Board of education	27,288	(20,337)	69,571	7,711
Administration	276,531	(339,583)	600,728	(802)
Fiscal	170,006	(211,588)	441,831	39,236
Business	1,795	(1,742)	7,062	7,062
Operations and maintenance	435,437	(87,151)	625,758	195,950
Central	61,947	(34,146)	242,261	95,335
Operation of non-instructional services	56,783	(2,539)	81,836	65,248
Extracurricular activities	10,628	(13,661)	22,727	(2,155)
Total expenses	$ 7,586,928	$ (9,860,259)	$ 18,854,567	$ 1,830,822

For all governmental activities, program revenue support is 229.96%. The primary support of the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenue for fiscal years 2018 and 2017.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of $5,343,119, which is lower than last year's balance of $5,998,114. The schedule below indicates the fund balances and the total change in fund balance during the fiscal years ended June 30, 2018 and June 30, 2017.

	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Change
General	$ 4,635,230	$ 4,494,445	$ 140,785
Nonmajor governmental	707,889	1,503,669	(795,780)
Total	$ 5,343,119	$ 5,998,114	$ (654,995)

General Fund

The ESC's general fund balance increased by $140,785. Overall revenues increased by 4.78%. Tuition increased from $15,514,026 to $16,448,209 or 6.02% due to the ESC providing services to more students during fiscal year 2018. Additionally, other revenues increased $28,378 or 52.41%.

Expenditures in the general fund increased $109,499 or 0.61% from fiscal year 2018. Operation of non-instructional services expenditures increased $3,218 or 25.18%. This increase was due primarily to the ESC performing more services for its member districts.

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

	2018 Amount	2017 Amount	Change	Percentage Change
Revenues				
Tuition	$ 16,448,209	$ 15,514,026	$ 934,183	6.02 %
Services provided to other entities	433,082	636,273	(203,191)	(31.93) %
Earnings on investments	70,312	43,778	26,534	60.61 %
Intergovernmental	1,043,490	1,004,706	38,784	3.86 %
Other revenues	82,526	54,148	28,378	52.41 %
Total	$ 18,077,619	$ 17,252,931	$ 824,688	4.78 %
Expenditures				
Instruction	$ 8,001,674	$ 7,935,604	$ 66,070	0.83 %
Support services	9,895,394	9,864,792	30,602	0.31 %
Operation of non-instructional services	16,000	12,782	3,218	25.18 %
Extracurricular activities	23,766	22,555	1,211	5.37 %
Capital outlay	8,398	-	8,398	100.00 %
Total	$ 17,945,232	$ 17,835,733	$ 109,499	0.61 %

Capital Assets

At the end of fiscal year 2018, the ESC had $1,716,134 invested in land, buildings and leaseholder improvements, furniture and equipment, and vehicles. This entire amount is reported among the ESC's governmental activities.

The following table shows June 30, 2018 balances compared to June 30, 2017.

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2018	2017
Land	$ 114,850	$ 114,850
Buildings and leaseholder improvements	1,557,975	809,093
Furniture and equipment	28,308	18,384
Vehicles	15,001	15,888
Total	$ 1,716,134	$ 958,215

The overall increase in the ESC's capital assets, net of accumulated depreciation, of $757,919 is attributable to building upgrades completed on the ESC's new offices.

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

Long-Term Obligations

The long-term liabilities for the ESC's governmental activities are for compensated absences, net pension liability, net OPEB liability, and a capital lease. See Notes 8, 11, 12, and 15 to the basic financial statements for detail.

Current Financial Related Activities

The North Point Educational Service Center relies heavily on contracts with local, city and exempted village school Districts in a five-county area, State foundation revenue and grants. Contracts with participating Districts are expected to increase in fiscal year 2018 and beyond due to additional service requests from Districts. The ESC also looks to expand services, providing fiscal, administrative and other services to entities. Currently some of those entities are the Northern Ohio Educational Computer Association, Bay Area Gas Consortium, and the Huron-Erie School Employees Insurance Consortium. These new contracts and expanded services along with the ESC's cash balance will provide the necessary funds to meet operating expenses in the future.

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

Another challenge facing the North Point Educational Service Center is the declining enrollment in the north central Ohio area over the past few years, and the projected decline in the future. State foundation funding is based on the average daily membership of the school districts in the counties, so the decline will directly impact State funding.

Contacting the ESC's Financial Management

This financial report is designed to provide local school districts, citizens, creditors, and other interested parties with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Matt Bauer, Treasurer, North Point ESC, 4918 Milan Road, Sandusky, Ohio or by calling (419) 627-3901.

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and investments	$ 6,771,836
Receivables:	
Accounts	30,900
Accrued interest	1,442
Intergovernmental	520,579
Prepayments	43,697
Capital assets:	
Nondepreciable capital assets	114,850
Depreciable capital assets, net	1,601,284
Capital assets, net	1,716,134
Total assets	9,084,588
Deferred outflows of resources:	
Pension	7,838,018
OPEB	371,535
Total deferred outflows of resources	8,209,553
Liabilities:	
Accounts payable	9,351
Accrued wages and benefits payable	1,589,323
Intergovernmental payable	27,975
Pension and postemployment benefits payable	271,939
Long-term liabilities:	
Due within one year	204,958
Due in more than one year:	
Net pension liability	26,998,975
Net OPEB liability	6,633,552
Other amounts due in more than one year	1,054,147
Total liabilities	36,790,220
Deferred inflows of resources:	
Pension	2,299,868
OPEB	762,726
Total deferred inflows of resources	3,062,594
Net position:	
Net investment in capital assets	1,707,736
Restricted for:	
Permanent fund - nonexpendable	2,645
State funded programs	1,346
Unrestricted (deficit)	(24,270,400)
Total net position (deficit)	$ (22,558,673)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Governmental activities:					
Instruction:					
Regular	$ 283,736	$ 756,503	$ 90,539	$ -	$ 563,306
Special	3,484,448	6,860,973	316,640	-	3,693,165
Support services:					
Pupil	1,615,080	4,803,365	4,628	-	3,192,913
Instructional staff	1,163,249	2,782,931	80,446	-	1,700,128
Board of education	27,288	47,625	-	-	20,337
Administration	276,531	607,114	9,000	-	339,583
Fiscal	170,006	367,194	14,400	-	211,588
Business	1,795	-	3,537	-	1,742
Operations and maintenance	435,437	512,977	-	9,611	87,151
Central	61,947	96,093	-	-	34,146
Operation of non-instructional services	56,783	8,555	50,767	-	2,539
Extracurricular activities	10,628	14,766	9,523	-	13,661
Total governmental activities	$ 7,586,928	$ 16,858,096	$ 579,480	$ 9,611	9,860,259

General revenues:	
Grants and entitlements not restricted to specific programs	1,043,490
Investment earnings	68,253
Miscellaneous	50,646
Total general revenues	1,162,389
Change in net position	11,022,648
Net position (deficit) at beginning of year (restated)	(33,581,321)
Net position (deficit) at end of year	$ (22,558,673)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	$ 6,065,293	$ 706,543	$ 6,771,836
Receivables:			
Accounts	30,900	-	30,900
Accrued interest	1,442	-	1,442
Intergovernmental	516,358	4,221	520,579
Prepayments	43,697	-	43,697
Due from other funds	2,342	-	2,342
Total assets	$ 6,660,032	$ 710,764	$ 7,370,796
Liabilities:			
Accounts payable	$ 8,818	$ 533	$ 9,351
Accrued wages and benefits payable	1,589,323	-	1,589,323
Compensated absences payable	36,780	-	36,780
Intergovernmental payable	27,975	-	27,975
Pension and postemployment benefits payable	271,939	-	271,939
Due to other funds	-	2,342	2,342
Total liabilities	1,934,835	2,875	1,937,710
Deferred inflows of resources:			
Intergovernmental revenue not available	1,935	-	1,935
Contract services not available	4,771	-	4,771
Tuition revenue not available	83,261	-	83,261
Total deferred inflows of resources	89,967	-	89,967
Fund balances:			
Nonspendable:			
Prepaids	43,697	-	43,697
Permanent fund	-	2,645	2,645
Restricted:			
State funded programs	-	1,346	1,346
Committed:			
Capital improvements	-	703,898	703,898
Assigned:			
Student instruction	9,550	-	9,550
Student and staff support	170,934	-	170,934
Facilities acquisition and construction	14,498	-	14,498
Other purposes	34,833	-	34,833
Unassigned	4,361,718	-	4,361,718
Total fund balances	4,635,230	707,889	5,343,119
Total liabilities, deferred inflows and fund balances	$ 6,660,032	$ 710,764	$ 7,370,796

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total governmental fund balances		$ 5,343,119
Amounts reported for governmental activities on the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,716,134
Other long-term assets, such as accounts receivable are not available available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Tuition revenue receivable	$ 83,261	
Contract services receivable	4,771	
Intergovernmental receivable	1,935	
Total		89,967
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligations	(8,398)	
Compensated absences	(1,213,927)	
Total		(1,222,325)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows are not reported in governmental funds.		
Deferred outflows - Pension	7,838,018	
Deferred Inflows - Pension	(2,299,868)	
Net pension liability	(26,998,975)	
Total		(21,460,825)
The net pension OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows are not reported in governmental funds.		
Deferred outflows - OPEB	371,535	
Deferred Inflows - OPEB	(762,726)	
Net OPEB liability	(6,633,552)	
Total		(7,024,743)
Net position (deficit) of governmental activities		$ (22,558,673)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition	$ 16,448,209	$ -	$ 16,448,209
Earnings on investments	70,312	9,611	79,923
Extracurricular	3,097	-	3,097
Rental income	12,653	-	12,653
Contributions and donations	15,125	-	15,125
Contract services	433,082	-	433,082
Other local revenues	51,651	-	51,651
Intergovernmental - intermediate	-	4,628	4,628
Intergovernmental - state	1,043,490	423,523	1,467,013
Intergovernmental - federal	-	136,204	136,204
Total revenues	18,077,619	573,966	18,651,585
Expenditures:			
Current:			
Instruction:			
Regular	819,848	90,539	910,387
Special	7,181,826	316,640	7,498,466
Support services:			
Pupil	5,128,040	4,628	5,132,668
Instructional staff	2,942,329	79,260	3,021,589
Board of education	43,012	-	43,012
Administration	640,645	9,000	649,645
Fiscal	388,584	14,400	402,984
Business	-	3,377	3,377
Operations and maintenance	682,899	-	682,899
Central	69,885	-	69,885
Operation of non-instructional services	16,000	45,165	61,165
Extracurricular activities	23,766	-	23,766
Facilities acquisition and construction	-	806,737	806,737
Capital outlay	8,398	-	8,398
Total expenditures	17,945,232	1,369,746	19,314,978
Excess (deficiency) of revenues over (under) expenditures	132,387	(795,780)	(663,393)
Other financing sources:			
Capital lease transaction	8,398	-	8,398
Total other financing sources	8,398	-	8,398
Net change in fund balances	140,785	(795,780)	(654,995)
Fund balances at beginning of year	4,494,445	1,503,669	5,998,114
Fund balances at end of year	$ 4,635,230	$ 707,889	$ 5,343,119

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds		$ (654,995)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	$ 821,226	
Current year depreciation	(61,828)	
		759,398
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		(1,479)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition	(12,178)	
Contract services	(26,767)	
Earnings on investments	(2,059)	
Intergovernmental	1,935	
Miscellaneous	(2,940)	
Total		(42,009)
Issuance 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.		(8,398)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(63,671)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		1,711,911
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		8,471,354
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		84,931
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.		765,606
Change in net position of governmental activities		$ 11,022,648

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABIILITIES
FIDUCIARY FUND
JUNE 30, 2018

		Agency
Assets:		
Equity in pooled cash and investments . . .	$	19,224,878
Total assets.	$	19,224,878
Liabilities:		
Due to other governments.	$	19,224,878
Total liabilities	$	19,224,878

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

NOTE 1 - DESCRIPTION OF THE ESC

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

The ESC is the result of the July 1, 1997, merger of the Erie County Educational Service Center and the Ottawa County Educational Service Center, the July 1, 1999, merger of the Erie-Ottawa Educational Service Center and the Huron County Educational Service Center, and the July 1, 2008 merger of the Erie-Huron-Ottawa Educational Service Center and the Sandusky County Educational Service Center, under the authority of the Ohio Revised Code Section 3311.053 and 3311.054 and resolutions made by the Governing Boards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments
The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of numerous school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the ESC is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial activity for fiscal year 2018 is reported in the basic financial statements as an agency fund.

Northern Ohio Educational Computer Association
The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of numerous public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees and a representative from the fiscal agent. The ESC serves as fiscal agent for NOECA. Financial activity for 2018 is reported in the basic financial statements as an agency fund. The ESC paid NOECA $85,801 in fiscal year 2018 for its services.

PUBLIC ENTITY RISK POOLS

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

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

Huron-Erie School Employees Insurance Association
The Huron-Erie School Employees Insurance Association (the "Association") is a public entity risk pool comprised of numerous districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. On January 1, 2006, the ESC became fiscal agent for the Association. Financial activity for fiscal year 2018 is reported in the basic financial statements as an agency fund. This financial activity does not include federal securities and various investments for which the treasurer of the ESC is not the custodian.

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

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The ESC does not have any proprietary funds.

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the ESC are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed or assigned to expenditures for capital outlays including the acquisition or construction if facilities and other capital assets.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

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

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

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

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 the major fund rather than reporting by fund type. The major fund is presented in a separate column and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows, and in the presentation of expenses versus expenditures.

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

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

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

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

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

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 Notes 11 and 12 for deferred outflows of resources related the ESC's net pension liability and net OPEB liability, respectively.

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, accrued interest, miscellaneous revenue, contract services, and tuition revenue. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the ESC, See Notes 11 and 12 for deferred inflows of resources related to the ESC's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

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. Cash and Investments

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

During fiscal year 2018, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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

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

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $100 million, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

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

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

F. Capital Assets

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

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

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 Estimated Lives
Buildings and leaseholder improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

G. Compensated Absences

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

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 severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

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

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

H. Accrued Liabilities and Long-Term Obligations

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

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 and net pension/OPEB liability 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.

I. Fund Balance

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

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

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

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

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

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

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

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

J. Net Position

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

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

K. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the funds balance is nonspendable on the fund financial statements by an amount equal to the carrying amount of the asset.

L. Estimates

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

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

M. Interfund Activity

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

N. Pensions/Other Postemployment Benefits (OPEB)

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the ESC has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*", GASB Statement No. 81 *"Irrevocable Split-Interest Agreements"* GASB Statement No. 85, *"Omnibus 2017"* and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the ESC's postemployment benefit plan disclosures, as presented in Note 12 to the basic financial statements, and added required supplementary information.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the ESC.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the ESC.

/

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the ESC.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position (deficit) as previously reported	$ (25,706,041)
Deferred outflows - payments subsequent to measurement date	70,250
Net OPEB liability	(7,945,530)
Restated net position (deficit) at July 1, 2017	$ (33,581,321)

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

6. The State Treasurer's investment pool (STAR Ohio);

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

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

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

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

A. Cash on Hand

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all ESC deposits was $7,190,921, and the bank balance of all ESC deposits was $7,331,599. Of the bank balance, $2,271,319 was exposed to custodial risk as discussed below because those deposits were uninsured and uncollateralized and $5,060,280 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC will not be able to recover deposits or collateral securities that are in the possession of an outside party. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the ESC and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the ESC's financial institutions did not participate in the OPCS. Although 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, 2018, the ESC had the following investments and maturities:

Investment/Measurement type	Measurement Value	Investment Maturity 6 months or less
Amortized cost:		
STAR Ohio	$ 18,805,750	$ 18,805,750

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. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to only invest in securities authorized by State statute.

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.

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, 2018:

Investment/Measurement type	Measurement Value	% of Total
Amortized cost:		
STAR Ohio	$ 18,805,750	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, 2018:

Cash and cash equivalents per note	
Carrying amount of deposits	$ 7,190,921
Investments	18,805,750
Cash on hand	43
Total	$ 25,996,714

Cash and cash equivalents per statement of net position	
Governmental activities	$ 6,771,836
Agency funds	19,224,878
Total	$ 25,996,714

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018 consisted of accounts (charges for individual tuition and other services) accrued interest and intergovernmental (grants and billings to school districts for user charged services). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Accounts	$ 30,900
Accrued interest	1,442
Intergovernmental	520,579
Total	$ 552,921

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

NOTE 6 - STATE FUNDING

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

The local school districts to which belong to the ESC agree to pay a per pupil amount to provide additional funding for services provided by the ESC, $9.50 per pupil for school districts located in Erie County and $6.50 for school districts located in Huron, Ottawa, and Sandusky Counties.

Part (B) of the budget is funded in the following way. Simultaneously, $27.00 (if determined to high performing ESC) times the sum of the ADM is paid by the State Board of Education from State funds to the ESC.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 6/30/17	Additions	Deductions	Balance 6/30/18
Captial assets, not being depreciated:				
Land	$ 114,850	$ -	$ -	$ 114,850
Total capital assets, not being depreciated	114,850	-	-	114,850
Capital assets, being depreciated:				
Buildings and leaseholder improvements	876,246	806,737	-	1,682,983
Furniture and equipment	306,816	14,489	(51,652)	269,653
Vehicles	42,105	-	-	42,105
Total capital assets, being depreciated	1,225,167	821,226	(51,652)	1,994,741
Less: accumulated depreciation				
Buildings and leaseholder improvements	(67,153)	(57,855)	-	(125,008)
Furniture and equipment	(288,432)	(3,086)	50,173	(241,345)
Vehicles	(26,217)	(887)	-	(27,104)
Total accumulated depreciation	(381,802)	(61,828)	50,173	(393,457)
Governmental activities capital assets, net	$ 958,215	$ 759,398	$ (1,479)	$ 1,716,134

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 840
Special	57,855
Support services:	
Instructional staff	1,851
Operations and maintenance	1,282
Total depreciation expense	$ 61,828

NOTE 8 - LONG-TERM OBLIGATIONS

The ESC's long-term obligations at fiscal year-end consist of the following. The long-term obligations at June 30, 2017 have been restated as described in Note 3.

	Restated Balance Outstanding 6/30/17	Additions	Reductions	Balance Outstanding 6/30/18	Amounts Due in One Year
Capital lease obligation	$ -	$ 8,398	$ -	$ 8,398	$ 1,382
Net pension liability	36,026,695	-	(9,027,720)	26,998,975	-
Net OPEB liability	7,945,530	-	(1,311,978)	6,633,552	-
Compensated absenses	1,158,868	338,881	(247,042)	1,250,707	203,576
Total	$ 45,131,093	$ 347,279	$ (10,586,740)	$ 34,891,632	$ 204,958

Capital Lease Obligation: Capital lease obligations will be paid from the general fund. See Note 15 for details.

Net Pension Liability: The District's net pension liability is described in Note 11. The District pays obligations related to employee compensation from the fund benefitting from their service.

Net OPEB Liability: The District's net OPEB liability is described in Note 12. The District pays obligations related to employee compensation from the fund benefitting from their service.

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

NOTE 9 - OPERATING LEASES

A. The ESC entered into an operating lease agreement on November 13, 2015, with Artino Ford to lease a 2015 Ford Escape. The term of the lease commenced November 13, 2015, and shall end on November 13, 2018. Notwithstanding any provision to the contrary, the lease shall automatically terminate upon the expiration of the lease.

The ESC shall pay to Artino Ford payments in monthly installments on the first day of each month during the term. The ESC made $4,018 in payments to Artino Ford during fiscal year 2018. A schedule of the future lease payment can be found below.

Fiscal year ending June 30,	Amount
2019	$ 1,339

B. The ESC entered into an operating lease with Erie County for the period January 1, 2017 through July 31, 2022 for a building located at 4405 Galloway Road, Sandusky, Ohio 44870. The lease payments are $3,000 per month.

NOTE 9 - OPERATING LEASES - (Continued)

C. The ESC entered into an operating lease with 4918 Milan Investments, Ltd. for the period October 1, 2017 through October 21, 2027 for a building located at 4918 Milan Road, Sandusky, Ohio 44870.

The ESC shall pay to 4918 Milan Investments, Ltd. payments in monthly installments on the first day of each month during the term. The ESC made $33,333 in payments to 4918 Milan Investments, Ltd. during fiscal year 2018. A schedule of the future lease payment can be found below.

Fiscal year ending June 30,	Amount
2019	$ 53,333
2020	61,667
2021	66,333
2022	68,333
2023	70,333
2024-2028	309,667
Total	$ 629,666

NOTE 10 - RISK MANAGEMENT

A. The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2018, the ESC has contracted with various insurance commercial carriers to provide insurance coverage for the following risks:

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

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

B. Employee Health Benefits

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

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

NOTE 10 - RISK MANAGEMENT - (Continued)

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

C. Workers' Compensation Group Rating Plan

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 - The 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 on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was $519,689 for fiscal year 2018. Of this amount, $38,809 is reported as pension and postemployment benefits payable.

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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 website 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. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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.

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The ESC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was $1,192,222 for fiscal year 2018. Of this amount, $132,744 is reported as pension and postemployment benefits payable.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, 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 projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.12765530%	0.07971647%	
Proportion of the net pension liability current measurement date	0.12608550%	0.08194262%	
Change in proportionate share	-0.00156980%	0.00222615%	
Proportionate share of the net pension liability	$ 7,533,330	$ 19,465,645	$ 26,998,975
Pension expense	$ (652,810)	$ (7,818,544)	$ (8,471,354)

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2018, the ESC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 324,206	$ 751,675	$ 1,075,881
Changes of assumptions	389,554	4,257,350	4,646,904
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	-	403,322	403,322
ESC contributions subsequent to the measurement date	519,689	1,192,222	1,711,911
Total deferred outflows of resources	$ 1,233,449	$ 6,604,569	$ 7,838,018
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 156,886	$ 156,886
Net difference between projected and actual earnings on pension plan investments	35,761	642,388	678,149
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	471,999	992,834	1,464,833
Total deferred inflows of resources	$ 507,760	$ 1,792,108	$ 2,299,868

$1,711,911 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (79,537)	$ 573,617	$ 494,080
2020	368,476	1,447,486	1,815,962
2021	92,678	1,158,255	1,250,933
2022	(175,617)	440,881	265,264
Total	$ 206,000	$ 3,620,239	$ 3,826,239

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	$ 10,454,304	$ 7,533,330	$ 5,086,418

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
ESC's proportionate share of the net pension liability	$ 27,903,340	$ 19,465,645	$ 12,358,152

NOTE 12 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 net OPEB liability represents the ESC's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB 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)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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.

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Chapter 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. 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 2018, the ESC's surcharge obligation was $65,683.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The ESC's contractually required contribution to SERS was $84,931 for fiscal year 2018. Of this amount, $67,120 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net OPEB liability was based on the ESC's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.12918577%	0.07971647%	
Proportion of the net OPEB liability current measurement date	0.12804730%	0.08194262%	
Change in proportionate share	-0.00113847%	0.00222615%	
Proportionate share of the net OPEB liability	$ 3,436,453	$ 3,197,099	$ 6,633,552
OPEB expense	$ 192,969	$ (958,575)	$ (765,606)

At June 30, 2018, the ESC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ -	$ 184,557	$ 184,557
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	-	102,047	102,047
ESC contributions subsequent to the measurement date	84,931	-	84,931
Total deferred outflows of resources	$ 84,931	$ 286,604	$ 371,535
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	9,075	136,651	145,726
Changes of assumptions	326,101	257,537	583,638
Difference between District contributions and proportionate share of contributions/ change in proportionate share	33,362	-	33,362
Total deferred inflows of resources	$ 368,538	$ 394,188	$ 762,726

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

$84,931 reported as deferred outflows of resources related to OPEB 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (132,510)	$ (29,319)	$ (161,829)
2020	(132,510)	(29,319)	(161,829)
2021	(101,250)	(29,319)	(130,569)
2022	(2,268)	(29,315)	(31,583)
2023	-	4,844	4,844
Thereafter	-	4,844	4,844
Total	$ (368,538)	$ (107,584)	$ (476,122)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the State statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the ESC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
ESC's proportionate share of the net OPEB liability	$ 4,149,955	$ 3,436,453	$ 2,871,178

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
ESC's proportionate share of the net OPEB liability	$ 2,788,424	$ 3,436,453	$ 4,294,130

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

NOTE 12 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the ESC's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
ESC's proportionate share of the net OPEB liability	$ 4,292,054	$ 3,197,099	$ 2,331,726

	1% Decrease	Current Trend Rate	1% Increase
ESC's proportionate share of the net OPEB liability	$ 2,221,207	$ 3,197,099	$ 4,481,486

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 14 - 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:

Fund	Year-End Encumbrances
General	$ 201,998
Nonmajor governmental funds	2,484
Total	$ 204,482

NOTE 15 - CAPITALIZED LEASE

During the fiscal year, the ESC entered into capitalized leases for a copier. The lease meets the criteria of a 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 basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been originally capitalized in the amount of $8,398, which represents the present value of the future minimum lease payments at the time of acquisition.

The capitalized asset acquired through capital leases are as follows:

Assets:	
Equipment (copier)	$ 8,398
Less: accumulated depreciation	(840)
Total	$ 7,558

As of June 30, 2018, the ESC had not yet made a payment on the capital lease. Future payments are disclosed in the following table:

Fiscal Year Ending June 30,	Amount
2019	$ 1,836
2020	1,836
2021	1,836
2022	1,836
2023	1,836
2024	459
Total minimum lease payments	9,639
Less: amount representing interest	(1,241)
Total	$ 8,398

These amounts are reported as debt service payments of the general fund.

NOTE 16 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2018 as reported on the fund statements, consist of the following amounts due to/from other funds:

Receivable fund	Payable fund	Amount
General Fund	Nonmajor governmental fund	$ 2,342

The primary purpose of the due to/from other funds is to cover negative cash in various nonmajor governmental funds. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.12608550%	0.12765530%	0.12878280%	0.15575100%	0.15575100%
ESC's proportionate share of the net pension liability	$ 7,533,330	$ 9,343,190	$ 7,348,471	$ 7,862,469	$ 9,262,012
ESC's covered payroll	$ 4,171,793	$ 4,065,500	$ 3,877,033	$ 4,525,815	$ 3,664,689
ESC's proportionate share of the net pension liability as a percentage of its covered payroll	180.58%	229.82%	189.54%	173.72%	252.74%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.08194262%	0.07971647%	0.08269208%	0.08659003%	0.08659003%
ESC's proportionate share of the net pension liability	$ 19,465,645	$ 26,683,505	$ 22,853,672	$ 21,061,692	$ 25,088,550
ESC's covered payroll	$ 8,015,050	$ 7,765,879	$ 8,834,186	$ 8,847,108	$ 10,074,808
ESC's proportionate share of the net pension liability as a percentage of its covered payroll	242.86%	343.60%	258.70%	238.06%	249.02%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 519,689	$ 584,051	$ 569,170	$ 510,993
Contributions in relation to the contractually required contribution	(519,689)	(584,051)	(569,170)	(510,993)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 3,849,548	$ 4,171,793	$ 4,065,500	$ 3,877,033
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 627,278	$ 507,193	$ 476,531	$ 489,475	$ 550,907	$ 396,993
(627,278)	(507,193)	(476,531)	(489,475)	(550,907)	(396,993)
$ -	$ -	$ -	$ -	$ -	$ -
$ 4,525,815	$ 3,664,689	$ 3,542,981	$ 3,893,994	$ 4,068,737	$ 4,034,482
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	**2017**	**2016**	**2015**
Contractually required contribution	$ 1,192,222	$ 1,122,107	$ 1,087,223	$ 1,236,786
Contributions in relation to the contractually required contribution	(1,192,222)	(1,122,107)	(1,087,223)	(1,236,786)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 8,515,871	$ 8,015,050	$ 7,765,879	$ 8,834,186
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014		2013		2012		2011		2010		2009	
$	1,150,124	$	1,309,725	$	1,258,968	$	1,313,583	$	1,276,459	$	1,254,451
	(1,150,124)		(1,309,725)		(1,258,968)		(1,313,583)		(1,276,459)		(1,254,451)
$	-	$	-	$	-	$	-	$	-	$	-
$	8,847,108	$	10,074,808	$	9,684,369	$	10,104,485	$	9,818,915	$	9,649,623
	13.00%		13.00%		13.00%		13.00%		13.00%		13.00%

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
ESC's proportion of the net OPEB liability	0.12804730%	0.12918577%
ESC's proportionate share of the net OPEB liability	$ 3,436,453	$ 3,682,272
ESC's covered payroll	$ 4,171,793	$ 4,065,500
ESC's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.37%	90.57%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
ESC's proportion of the net OPEB liability	0.08194262%	0.07971647%
ESC's proportionate share of the net OPEB liability	$ 3,197,099	$ 4,263,258
ESC's covered payroll	$ 8,015,050	$ 7,765,879
ESC's proportionate share of the net OPEB liability as a percentage of its covered payroll	39.89%	54.90%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 84,931	$ 70,250	$ 64,601	$ 105,534
Contributions in relation to the contractually required contribution	(84,931)	(70,250)	(64,601)	(105,534)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 3,849,548	$ 4,171,793	$ 4,065,500	$ 3,877,033
Contributions as a percentage of covered payroll	2.21%	1.68%	1.59%	2.72%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

	2014	2013	2012	2011	2010	2009
	$ 78,195	$ 64,857	$ 83,331	$ 144,973	$ 84,551	$ 255,551
	(78,195)	(64,857)	(83,331)	(144,973)	(84,551)	(255,551)
	$ -	$ -	$ -	$ -	$ -	$ -
	$ 4,525,815	$ 3,664,689	$ 3,542,981	$ 3,893,994	$ 4,068,737	$ 4,034,482
	1.73%	1.77%	2.35%	3.72%	2.08%	6.33%

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 8,515,871	$ 8,015,050	$ 7,765,879	$ 8,834,186
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 88,471	$ 100,748	$ 96,884	$ 101,045	$ 98,189	$ 96,496
(88,471)	(100,748)	(96,884)	(101,045)	(98,189)	(96,496)
$ -	$ -	$ -	$ -	$ -	$ -
$ 8,847,108	$ 10,074,808	$ 9,684,369	$ 10,104,485	$ 9,818,915	$ 9,649,623
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

THIS PAGE IS INTENTIONALLY LEFT BLANK

SUPPLEMENTARY INFORMATION

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues:				
From local sources:				
Tuition.	$ 16,046,061	$ 16,046,061	$ 16,408,081	$ 362,020
Earnings on investments	54,500	54,500	70,167	15,667
Rental income	5,000	5,000	15,500	10,500
Contract services.	302,000	302,000	520,837	218,837
Other local revenues	37,000	37,000	51,651	14,651
Intergovernmental - state	975,939	975,939	1,037,967	62,028
Total revenues	17,420,500	17,420,500	18,104,203	683,703
Expenditures:				
Current:				
Instruction:				
Regular	959,594	945,100	808,370	136,730
Special.	9,404,824	9,261,570	7,345,584	1,915,986
Support services:				
Pupil.	6,209,006	6,116,500	5,149,700	966,800
Instructional staff	4,282,146	4,186,856	3,049,147	1,137,709
Board of education	115,132	114,618	89,330	25,288
Administration.	931,576	917,505	648,738	268,767
Fiscal	548,789	555,594	392,368	163,226
Operations and maintenance.	940,353	943,423	705,282	238,141
Central.	150,934	148,522	131,103	17,419
Total expenditures	23,542,354	23,189,688	18,319,622	4,870,066
Excess of expenditures over revenues	(6,121,854)	(5,769,188)	(215,419)	5,553,769
Other financing sources:				
Refund of prior year's expenditures	150,000	150,000	140,501	(9,499)
Total other financing sources	150,000	150,000	140,501	(9,499)
Net change in fund balance	(5,971,854)	(5,619,188)	(74,918)	5,544,270
Fund balance at beginning of year	5,734,890	5,734,890	5,734,890	-
Prior year encumbrances appropriated	168,471	168,471	168,471	-
Fund balance (deficit) at end of year	$ (68,493)	$ 284,173	$ 5,828,443	$ 5,544,270

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	General fund
Budget basis	$ (74,918)
Net adjustment for revenue accruals	(65,174)
Net adjustment for expenditure accruals	220,317
Net adjustment for other sources and uses	(132,103)
Funds budgeted elsewhere	(7,822)
Adjustment for encumbrances	200,485
GAAP basis	$ 140,785

Certain funds that are budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund and the special rotary fund.

Julian & Grube, Inc.
Serving Ohio Local Governments
333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

North Point Educational Service Center
Erie County
4918 Milan Road
Sandusky, Ohio 44870

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Point Educational Service Center's basic financial statements and have issued our report thereon dated December 13, 2018, wherein we noted as discussed in Note 3, the North Point Educational Service Center adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

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

North Point Educational Service Center's Response to the Finding

The North Point Educational Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not subject the North Point Educational Service Center's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 13, 2018

NORTH POINT EDUCATIONAL SERVICE CENTER
ERIE COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2018-001

Material Weakness - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and other stakeholders with objective and timely information to enable well-informed decisions.

Certain adjustments were made to the financial statements and note disclosures to properly state Agency Fund financial statement amounts, which relate to activities, of which the ESC is the fiscal agent. Certain investment changes occurred which that are not controlled by the Treasurer. These changes were inadvertently not reflected in the initial financial statements presented.

The audited financial statements and note disclosures have been adjusted for the misstatements identified during the audit.

Presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason. In either case, it is important that control procedures are developed related to the financial statements that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In general, an accounting and information system should be designed to provide management with accurate and timely information to enable well-informed business decisions to be made.

We recommend the ESC implement additional control procedures that enable management to more timely prevent or detect and correct potential misstatements in the basic financial statements prior to filing them in the Hinkle system.

Client Response: The ESC acts as the Fiscal Agent for numerous additional entities. These additional entities often have difficult and complex transactions. The ESC will evaluate what additional internal controls could be beneficial to help ensure accurate reporting of Fiscal Agent activities.

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

NORTH POINT EDUCATIONAL SERVICE CENTER

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 21, 2019